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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1987

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

H.R. 5339/S. 2824

AN ACT MAKING APPROPRIATIONS FOR FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1987, AND FOR OTHER PURPOSES

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Agency for International Development
Department of State
Department of the Treasury
Export-Import Bank of the United States
Inter-American Foundation
Nondepartmental Witnesses
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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1987

WEDNESDAY, MARCH 12, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:11 p.m., in room SD–124, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, D'Amato, Specter, and Inouye.

DEPARTMENT OF THE TREASURY

STATEMENT OF HON. JAMES A. BAKER III, SECRETARY OF THE TREASURY

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order. This afternoon, we begin our fiscal year 1987 budget hearings on programs under the jurisdiction of the Foreign Operations Subcommittee. This year is going to be an especially difficult one for foreign assistance because of the overall budgetary situation and, of course, with Gramm-Rudman-Hollings, foreign assistance is going to have to take its fair share of the reductions required, as well as other programs.

We are going to be working with the administration to try to make sure that such reductions do not too adversely affect important foreign assistance programs, but nonetheless, it is clear to me, and I believe to all of the members of the subcommittee, that reductions are going to be required.

This afternoon's witness is the Honorable James Baker, Secretary of the Treasury, who will present testimony on behalf of the budget request for the Multilateral Development Banks and a new program, the Fair Export Financing Program.

INTRODUCTION OF SUBCOMMITTEE MEMBERS

Before I ask you to begin, though, I would like to ask if the ranking member, the Senator from Hawaii, has any comments.

Senator INOUYE. Thank you very much. I would like to associate myself with your remarks in welcoming our Secretary.

Senator KASTEN. Senator D'Amato, do you have any opening statement or comment?

PREPARED STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Mr. Chairman, in the interest of time, I would like to ask that my statement be included in the record as if read in its entirety.

[The statement of Senator D'Amato follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Mr. Chairman, I welcome Secretary Baker to our first budget overview hearing for fiscal year 1987. Today's topic of the multilateral development banks and their importance to the world economy is a critical issue for the administration and Congress, and for the stability of both our domestic and international banking system.

The foreign aid package for fiscal year 1987 will come under great scrutiny. It is one of the few functions in the administration's budget which is getting a healthy increase. Such an increase will be difficult to justify in light of severe program cuts in other areas. The administration has requested $1.39 billion in budget authority for multilateral development banks for fiscal year 1987. This is a significant increase from post-Gramm-Rudman-Hollings fiscal year 1986 budget authority of $1.14 billion.

The World Bank, which offers loans worldwide, and the regional banks, such as Inter-American Development Bank, the Asian Development Bank, and the African Development Bank, lend billions of dollars to developing nations. During years of high inflation, loans were made to many Third World nations under the assumption that growth rates would continue to exceed inflation rates. By 1982, the tremendous repayment burden of these loans to many borrower nations finally surfaced. Blame for this problem can be spread among all the participants. Loans were made by American banks with too little forethought and supervision. Borrower nations happily accepted the loans at high interest rates with little consideration of the possible future consequences. The multilateral development banks neglected to adequately monitor and react to the development problems.

Mr. Secretary, I commend the innovative and novel approach you have offered to the problem of Third World debt. The plan you introduced last fall brought hope both to the world's lender and borrower nations. This program emphasizes market-oriented policy reforms of debtor nations combined with new lending from commercial banks and a larger role for the World Bank and other international financial institutions. In addition to $20 billion in loans from commercial banks, this plan calls for the doubling of loans from the World Bank and the Inter-American Development Bank to a total of $9 billion. Underscoring private sector development needs the coordination and cooperation of all the parties involved. It is my hope that this effort will end the discouraging cycle of increased debt burden by borrower nations.

I am concerned, Mr. Secretary, however, over some of the aspects of your new initiative. The distinguished chairman of this subcommittee has been an outspoken leader on the issue on the environmental consideration of our multilateral development banks. The United States knows from experience that economic development without consideration of the environmental impact can be devastating and can have long-lasting effects. Environmental concerns are often a low priority for a poor nation trying to improve its economy. Emphasizing private sector development further may exacerbate this problem. Many multilateral development banks already have poor environmental records. It is my hope, Mr. Secretary, that environmental concerns will not be lost in the pursuit of higher growth rates for debtor nations.

The problem of Third World debt and its possible ramifications on the health of our banking system is a tremendously serious problem that should continue to merit the close attention of Congress and the administration. I look forward to working closely with you, Secretary Baker, and with the Treasury Department on this important matter.

Thank you, Mr. Chairman.

Senator KASTEN. Secretary Baker, welcome. Let me start off by saying I think you have done an outstanding job as Secretary of the Treasury, and it has been a pleasure to be working with you at the Treasury. We look forward to continuing to work with you on a number of very important programs, not only under the jurisdiction of the subcommittee, but on other matters, as well.

PREPARED STATEMENT OF SECRETARY BAKER

As you know, Mr. Secretary, your full statement will appear in the record as if read. Therefore, if you wish to summarize it to save time, we will then proceed to questions.

[The statement follows:]

PREPARED STATEMENT OF HON. JAMES A. BAKER, III

SECRETARY OF THE TREASURY

Mr. Chairman and members of the committee:

I welcome this opportunity to discuss with you the Administration's budgetary proposals for the Multilateral Development Banks (MDBs) for fiscal year 1987.

Since taking office, the Administration has stressed the importance of sound, market-oriented policies to achieving economic development. Today, I would like to review this issue; to discuss its importance in the Administration's initiative to encourage growth in many developing countries now contending with high debt service payments; and to stress the cost effectiveness of MDB operations.

Program for Sustained Growth

Last October at the annual meetings of the World Bank and IMF, I outlined a U.S. proposal for addressing the problems of debt ridden developing countries -- the "Program for Sustained Growth". This three-point program aimed at improving debtors' growth prospects builds on the current case-by-case debt strategy and involves the following elements:

(1) credible policy reform by the debtor nations;

(2) an enhanced role for the international financial institutions, particularly the World Bank; and,

(3) significant net new lending from the commercial banks.

Stronger and sustainable growth in the debtor countries is essential to solving the debt problem. Achieving this objective, however, requires recognition by the debtor countries themselves of the need to adopt growth-oriented economic policies. Absent appropriate economic policies, no amount of money -- whether derived from external borrowing, foreign aid, or domestic monetary expansion -- will produce sustained growth.

The types of policies required for stronger and sustainable growth are:

-- the privatization of burdensome and inefficient public enterprises,

-- the development of more efficient domestic capital equity markets,

-- growth oriented tax reform,

-- improvement of the environment for both domestic and foreign direct investment, and

-- trade liberalization and the rationalization of import regimes.

Many of these touch sensitive political issues, and their benefits may become visible only over the longer term.

Role of the MDBs. The MDBs, in particular the World Bank and the Inter-American Development Bank (IDB), are expected to play a central role in this initiative. We have also asked the IMF to give more thought to growth-oriented policies and this is being done. But the IMF's central mission is not that of a development institution. It concentrates on relatively short-term balance of payments programs. Hence, the Fund's contribution to longer-term reform efforts is necessarily somewhat limited and indirect. The MDBs on the other hand, are more strongly focused on longer-term development issues, and thus are in a better position to deal with the longer-term structural problems most debtor countries face.

The expanded role for the MDBs that this Program foresees, in particular the roles of the World Bank and the IDB, will also require important policy and procedural changes in these institutions. These changes may be difficult but are indispensable if these institutions are to significantly expand their policy-based, fast-disbursing lending.

For example, it will be essential to improve and strengthen conditionality. Any substantial increase in fast-disbursing lending which fails to maintain loan quality will result in a serious risk of over-exposure and a diminished international credit standing.

The World Bank already has experience in addressing some of the types of structural problems that most debtor countries face. Much of the World Bank's new lending will be fast-disbursing sectoral and structural adjustment loans. We believe the World Bank has ample capacity to increase lending commitments by some $2 billion per year over the next three years and to concentrate that lending more heavily on the large debtors with credible reform programs. We are also prepared, if all the participants in the strategy do their part and there is a demonstrated increase in the demand for quality lending above these levels, to consider a general capital increase for the World Bank.

In this context our ongoing and past efforts to strengthen MDB policies take on an ever great importance.

Strengthen Economic Policies

From the outset this Administration has emphasized that a fundamental role of the MDBs should be to encourage policy reform in developing countries. This was a central theme of the Administration's assessment of the MDBs, published in 1982. This general theme, which we have emphasized with the MDBs and with the major donor countries, is translated into four main areas:

-- improved loan quality
-- privatization
-- country strategies, and
-- adjustment in lending terms.

Loan Quality

We have had a measure of success in our continuing efforts to improve loan quality. We have pushed the MDBs to focus

more on how overall macroeconomic policies impact on projects, and they have responded by broadening their examination to include all of the variables in the economy, e.g., interest rates and exchange rates, not just those traditionally in their preview -- e.g., user charges and farm-gate prices.

Our chief concern now is that too often the MDBs yield to borrower intransigence on improving loan quality issues. For instance, an unwillingness to rationalize uneconomic public utility rates or import tariffs. This is particularly true toward the end of a fiscal year when the question becomes one of making a loan or not. We want a greater resolve by the MDBs to seek strong, economic loan conditions; and an increased willingness by the MDBs to refuse funding when these conditions are not accepted, or, once accepted, are not met.

Private Sector

The MDBs are doing much more to promote the private sector. The Asian Development Bank (ADB) established a private sector unit, which has started a limited program of lending to the private sector without guarantees. The World Bank has been in the forefront in convincing governments, particularly in Africa, to restrict their role in the economy. Overall, the MDBs are focusing more on the private sector. Now the Administration wants each of the MDBs to enhance their operations to promote private sector development, i.e., to devise ways to emphasize the private sector in preference to the public sector. Possibilities include intermediating loans between the foreign and domestic private sector, having parastatal enterprises become more responsive to market forces, and where appropriate, selling off all or part of the state's interest.

We recognize there are honest differences of opinion regarding the role of the state in some sectors of the economy -- such as utilities and telephone service. But we cannot allow these unique sectors to obscure the fact that in most industries, government ownership is disruptive, inefficient, and is not required. In our opinion, the MDBs must confront these cases head-on.

Country Strategy

All of the MDBs produce lending plans for borrowing countries that set out to varying degrees the resource base and the policies -- taxing, pricing, regulations, investment climate, etc. -- which will best exploit market opportunities in those countries. Too often, however, there is an insufficient connection between country strategy documents and lending. We believe country strategies must serve as a broad guideline in the preparation of individual loans, and should not be undermined. Better coordination on country strategies between the MDBs, bilateral donors and borrowers is needed. In particular, country strategies must be worked out thoroughly with the developing countries to have their full support -- without their support this will not work.

Lending Terms

Finally, we are suggesting moderate changes in concessional lending terms. This includes a reduction of maturities and

grace periods, repricing during a loan to reflect changes in a borrower's economic circumstances, and establishment of a small interest charge. Other donor countries have been generally supportive of our desires to reduce maturities and grace periods, and to provide for repricing of future loan contracts.

However, they are strongly resisting our request to charge modest interest rates. We will continue our discussion on these issues with other donors during the course of the ongoing replenishment negotiations.

The Multilateral Investment Guarantee Agency (MIGA)

Consistent with these efforts to strengthen economic policy, the Administration has supported the creation of the Multilateral Investment Guarantee Agency (MIGA), and is requesting Congressional support and approval of the MIGA. The MIGA will promote reform of developing countries investment policies, enhance the private sector's contribution to the development process, and encourage the flow of non-debt capital to developing countries. Its strong mandate to promote policy reform in developing member countries will be a valuable addition to the programs we are using to promote policy reform through the multilateral development banks. In addition, by stimulating the flow of private direct investment to developing countries, the MIGA can be an important component in our international debt strategy by furthering our objective to enhance the role of the private sector in developing countries and the movement toward equity vs. debt capital in these countries.

U.S. membership in the MIGA will also advance our national interests. The United States, as the largest international investor, has a major stake in seeing that appropriate standards for investment protection are developed. Due to its multilateral nature, the MIGA will be better positioned to promote reforms than OPIC or other national insurance agencies, which focus on individual transactions to increase the competitiveness of their investors. This will be a small, cost effective operation requiring little funding. In return we will secure an important new instrument for promoting an improved international economy.

Thus, the Administration believes that the United States should move expeditiously to join the MIGA and seeks authorization and full funding of U.S. membership in the FY 1987 Budget. The $222.0 million U.S. subscription -- which is 20.5 percent of the total -- will include $44.4 million of budget authority of which $22.2 million is to be paid in cash and $22.2 million is to be in the form of non-negotiable non-interest bearing promissory notes. The remainder of the Administration's request is for $177.6 million of callable capital under program limitations. I want to emphasize that this is a one year appropriation; we do not envisage additional budget requests.

The MIGA will be a valuable addition to the multilateral institutions because it is uniquely positioned to further our policies toward development in developing countries as well as serve our own economic interests. Support for its creation comes not only from the Administration; it has also attracted broad endorsement from the private sector. I therefore urge that the Congress enable us to move expeditiously to become a founding member of the MIGA.

Environment

Mr. Chairman, another critical area of interest regarding MDB policies and operations is the environment. You have expressed concern about the negative impact of some MDB projects on the environment. The Treasury Department has found that MDB performance in this area is mixed, and has expressed its concern in meetings with senior management at the MDBs, and with other member countries. Major problems have surfaced in such projects as dams, penetration roads into relatively undeveloped areas, and agriculture and rural development. Too often, if environmental considerations threaten expeditious project financing, the environment is assigned low priority and is left to be dealt with later. We believe projects in environmentally sensitive sectors should only be accepted if environmental aspects have been thought through, and if measures necessary for sustainable development have been identified and any necessary funding assured. We are carrying out the requirements which you placed in the FY 1986 appropriation act and will be responding to you in detail in the near future.

Cost Effectiveness of the MDBs

It is important to emphasize that while we are seeking changes in the MDBs, they are very important to the conduct of U.S. foreign and economic policy; and they are performing better. Hence, it is in our own self-interest to assure they are adequately funded.

The cost to the United States of trying to duplicate bilaterally what has been achieved multilaterally in the MDBs would be prohibitive. Through 1984 the MDB hard loan windows have made total loan commitments of $133.1 billion at a cost to the United States of only $2.4 billion. The soft, concessional loan windows have made $50.6 billion in loan commitments at a cost to U.S. taxpayers of $14.8 billion. As we have pointed out previously, most of the countries that receive allocations from the State Department's Economic Support Fund (ESF) also receive MDB support. Three countries that receive ESF but no MDB assistance -- Israel, Italy, and Spain -- have per capita incomes too high to qualify as MDB borrowers. Interestingly, there are a number of countries of strategic importance to the United States -- e.g., Argentina, Brazil, and Mexico -- that receive substantial MDB support, but no ESF at all.

It is true that MDB programs do not always live up to the high standards we and the MDBs themselves have set. That is why we are trying to exercise our leadership in directing how the MDBs can improve their operations. Through our leadership we have been seeing a better product. However, we can only maintain our leadership position if we are willing to bear what the other members mutually perceive to be our fair share in supporting these institutions. We cannot have it both ways, i.e., we cannot for long place more of the burden of fostering and enlarging the international economic system on the MDBs and other international organizations, and then refuse to support them adequately.

Currently we are negotiating replenishments with all of the MDB groups. We have been consulting with the Congress regularly during these negotiations to ensure we are taking into account your views. We will continue these consultations as the negotiations proceed.

These replenishments and aspects of the U.S. debt initiative indicate a potential need for increased resources for the MDBs which is at variance with our current budget environment. The Administration's fiscal year 1986 request for the MDBs was reduced by $228.8 million by Congress in the Continuing Resolution; implementing Gramm-Rudman-Hollings reduced it another $48.1 million. The funding requests reflect a commitment on the part of the United States Government. We have an obligation to our friends and allies to honor these commitments. We will be seeking your support for appropriating these shortfalls.

We are currently discussing with the Department of State and OMB how best to handle these shortfalls in MDB funding. I would urge your support in this effort and ask that you not compound the problem with additional reductions in the FY 1987 budget request for the MDBs.

The Fiscal Year 1987 Budget Request

Our MDB fiscal year 1987 request is composed almost exclusively of funding requirements negotiated by this Administration in close consultation with this Committee.

These funding proposals reflect both the need for budgetary restraint and the financial requirements for effective development programs. The fiscal year 1987 request is for $1.4 billion in budget authority and $3.8 billion under program limitations for callable capital.

International Bank for Reconstruction and Development (IBRD)

For the IBRD in fiscal year 1987, the Administration is requesting: 1) $109.7 million in budget authority and $1,353.0 million under program limitations for subscriptions to the sixth installment of the 1981 GCI; 2) $65.7 million in budget authority and $685.5 million under program limitations for subscriptions to the first of two installments to the IBRD's 1984 Selective Capital Increase (SCI); and 3) $7.4 million for paid-in capital subscriptions and $66.7 million in program limitations for callable capital subscriptions to the 1970 SCI.

The 1984 SCI totals $8.4 billion and was unanimously approved by the IBRD Executive Board in May 1984. This SCI adjusts members' relative shares to reflect their relative position in the world economy. U.S. participation is the parameter of U.S. support for the World Bank and our willingness to work cooperatively with other donor countries to strengthen the World Bank's financial position and ensure improved cost-sharing.

The Administration continues to believe that the IBRD should play a prominent role in the longer-term development programs of its borrowers and regards "equitable cost-sharing" among donors to be a key element of our participation in all of the MDBs. An important consideration for the United States in negotiating the SCI was the general understanding to maintain a conservative interpretation of the IBRD's "sustainable level of lending" (SLL).

International Development Association (IDA)

For fiscal year 1987, the Administration is requesting $750 million for the third installment for the $2.25 billion U.S. share of the $9 billion Seventh Replenishment. We are pleased

at the speed with which the World Bank has moved, with full support of the Executive Board, to strengthen the administration and management of its African operations, with the object of supporting policy reform efforts in this region. We continue to believe the countries of Sub-Saharan Africa and other least developed countries should have first claim on available IDA resources as long as these countries are able to make effective use of these resources.

International Finance Corporation (IFC)

For fiscal year 1987, the Administration is seeking $35.0 million for the second of five installments on the U.S. subscription to a $650 million IFC capital increase unanimously approved by the IFC Executive Board in June 1984.

This capital increase is needed to support an IFC five-year plan for the period FY 1985-1989 that is consistent with the direction and emphasis the United States has encouraged the IFC to take.

Multilateral Investment Guarantee Agency (MIGA)

As mentioned above, for fiscal year 1987, the Administration is requesting $44.4 million in budget authority and $177.6 million under program limitations for the U.S. subscription. Of the budget authority, half ($22.2 million) will be paid in cash and half will be in the form of non-negotiable, non-interest bearing promissory notes that will be treated like callable capital.

The MIGA is a new international institution designed to encourage the flow of investment to and among developing countries by issuing guarantees against political risk, carrying out a wide range of promotional activities and encouraging sound investment policies in member countries. Foreign direct investment, which the MIGA will accelerate, can be a direct substitute for official financial flows. The Administration has strongly supported the creation of this institution and believes that the United States should move expeditiously to join it.

Inter-American Development Bank (IDB)

For fiscal year 1987, the Administration is requesting $58.0 million in budget authority and $1,231.0 million under program limitations for the fourth installment. The lending program based on the 1983 capital increase is designed to continue strong support for the long term development of the countries in Latin America and the Caribbean.

Fund for Special Operations (FSO)

For fiscal year 1987, the Administration is requesting $72.5 million for the fourth installment. The FSO replenishment is designed to address the long term development needs of the poorest countries, primarily in Central America and the Caribbean.

Inter-American Investment Corporation (IIC)

For fiscal year 1987, the Administration is seeking $13 million for the third of four installments to the IIC. The Administration strongly supported establishing the IIC

as a practical means of enhancing the capacity of the IDB to aid the private sector in borrowing countries. The investment program will provide loans and equity participation for small- to medium-sized privately controlled firms in Latin America and the Caribbean.

Asian Development Bank (ADB)

For fiscal year 1987, the Administration is seeking $13.2 million in budget authority and $251.4 million under program limitations for the fourth of five installments for the 1983 General Capital Increase. The ADB is a key institution in one of the most economically dynamic and politically sensitive regions of the world. Active and positive U.S. participation has served U.S. interests.

Asian Development Fund (ADF)

For fiscal year 1987, the Administration is requesting $130 million for the fourth installment to the third replenishment. The ADF has supported well designed and effective development projects in some of the poorest countries in the world. U.S. support benefits the people of such countries as Pakistan and Sri Lanka as well as many of the strategic island countries in the South Pacific.

African Development Bank (AFDB)

For fiscal year 1987, the Administration is requesting $18.0 million in budget authority for subscriptions to paid-in capital and $54.0 million under program limitations for callable capital for the fifth of five installments for the initial U.S. subscription to the AFDB.

The AFDB is visible evidence of U.S. commitment to work with the countries of Africa for the achievement of their long term development objectives.

African Development Fund (AFDF)

For fiscal year 1987, the Administration is seeking $75 million in budget authority for the second of three installments for the U.S. contribution to the fourth replenishment. During the period of the fourth replenishment, 85 percent of AFDF lending will go to the poorest African countries. Fund lending will continue to be focused on agriculture with 40 percent of the replenishment resources going to this sector. The remainder of AFDF lending will go to high priority projects for transportation, health, education and water supply.

The substantial increase in the U.S. contribution to the AFDF is a reflection of the Administration's belief that concessional development assistance should be focused on the poorest countries, particularly those of Sub-Saharan Africa.

Conclusion

In conclusion, Mr. Chairman, I want to emphasize the Administration's commitment and full support for the MDBs. They play an important role in U.S. foreign and international economic policy. Now, we are asking them to take a more active part in supporting growth-oriented policy reform in the developing countries -- to play a central role in implementing the

"Program for Sustained Growth". Successful implementation of this program will be very helpful to the U.S. economy, it will increase effective demand among developing countries for U.S. exports; and will reduce the strains on the international financial system by helping developing countries reduce their debt service obligations to more manageable proportions.

I recognize fully that even in the best of circumstances supporting foreign assistance is never popular. Now, at a time of severe budget constraint, it will be even more difficult. But I strongly believe that if we do not firmly support the MDBs now, we may have to resort to more costly measures later.

THIRD WORLD DEBT PROBLEM

Senator D'AMATO. Let me say that I would like to commend Secretary Baker for his initiative with respect to dealing with this Third World debt problem. I hope that our allies see fit to continue to be a part of that solution-making process. It is a difficult one to say, at best, so let me commend you, Mr. Secretary, for undertaking that very serious, threatening problem. It threatens the economy of the entire free world.

Thank you, Mr. Chairman.

Senator KASTEN. Mr. Secretary, welcome.

SUMMARY OF STATEMENT

Secretary BAKER. Thank you, Mr. Chairman. Thank you, Senator Inouye, and thank you, Senator D'Amato. I welcome this opportunity to discuss with you the administration's budget proposals for the MDB's. I have, of course, as you noted, Mr. Chairman, submitted a formal, detailed statement of our budget request, and I thank you for including that in the record.

I will not repeat my written statement chapter and verse, but let me, if I might, summarize our overall approach to the Multilateral Development Banks in the context of the United States and the international economic environment.

FUNDING OF COMMITTED AGREEMENTS

First, let me assure you that we subjected our MDB budget proposals to the most careful scrutiny within the administration. With one exception, we are asking Congress in fiscal 1987 to fund agreements which were made only after close consultation with the Congress. These agreements reflect commitments on the part of the United States, and we must honor those commitments.

In addition, we are also scrutinizing future replenishments for the MDB's in light of our budget environment and the resource requirements of the institutions.

As an example, we have been resisting pressure from other countries for early consideration of a new general capital increase in the World Bank, because we believe it to be premature.

MULTILATERAL INVESTMENT GUARANTEE AGENCY

The only new fiscal 1987 budget item we are proposing for the MDB's is the Multilateral Investment Guarantee Agency or MIGA. We are seeking new funding which is likely to involve a one-time outlay of $22 million, because we believe the MIGA will play a critical and cost-effective role in reforming the international investment climate and in stimulating investment flows to debtor countries badly in need of capital.

Any examination of the budget request for the MDB's must also take into account our national interests. The MDB's can play a key role in our global economic strategy at a time when we are confronting a serious international economic crisis which threatens to jeopardize our economy and the entire international financial system.

PROGRAM OF SUSTAINED ECONOMIC GROWTH

At the time of the World Bank and IMF annual meeting last year, I proposed a program to address this crisis by concentrating our efforts on the necessary steps to promote sustained economic growth. That program has been accepted by the commercial banking community, by the international financial institutions, other industrialized countries, and the developing debtor countries themselves.

The program involves three mutually reinforcing elements to improve growth prospects in debtor nations. First and foremost, credible growth-oriented reforms by debtor nations supported by $9 billion in increased lending by the MDB's and $20 billion in net new commercial bank lending over the next 3 years.

We are not asking Congress to spend taxpayers' dollars to bail out the commercial banks or to bail out debtor countries. Rather, the debtor countries themselves must take the necessary measures of economic adjustment to get their houses in order, and it is in the interest of commercial banks to respond by lending to those countries, taking appropriate measures.

While other major participants in this program will have to do their part, we will also need to do ours. A key element is to ensure that the MDB's are capable of performing their role. Congressional support for the MDB budget request is essential to this effort.

The MDB's working closely with the IMF are the primary institutions with sufficient leverage and expertise to work with countries on establishing necessary economic policies to foster sustainable economic growth.

Also, of all the existing institutions, the MDB's are the most cost effective from a U.S. budgetary perspective. One dollar of budget authority approved by this committee for the World Bank, for example, translates into $60 of lending authority.

Mr. Chairman, we can't duplicate that kind of leverage on a bilateral basis. We need the MDB's as part of our international economic strategy.

COUNTRIES OF IMPORTANCE TO UNITED STATES

I would also like to make clear how effective the MDB's are at providing financial resources to countries of importance to us. For example, in fiscal 1984, total lending from the MDB's was $22.9 billion. Of this amount, $15.6 billion went to countries receiving U.S. foreign assistance, and another $4.6 billion went to countries which are of strategic importance to us, such as Mexico, Argentina, Brazil, and Korea, but which did not receive any bilateral assistance.

In other words, nearly 88 percent of MDB lending went to countries of significant importance to the United States. If the MDB's are to play a key role in policy reform—and we have made policy reform a critical element in all replenishments, as well as in the MIGA—they must have adequate funding * * * they must have U.S. support.

However, they will not be perceived as having U.S. support if the United States does not honor past commitments. We are the principal advocates of a policy reform role for the MDB's, but we will not be seen as credible if, at the same time that we are pressing for policy reform, we renege on commitments which have been carefully worked out in the past.

This administration has worked closely with this committee over the last 5 years to curtail budgetary outlays to the MDB's and to reform these institutions.

I want to compliment you, Mr. Chairman, for sharing with us your expertise in budget matters and for helping to reform the MDB's. Your support has proven invaluable in our efforts in this regard.

In our opinion, these institutions have improved their performance and have instituted some of the reforms we have proposed. The MDB's now focus more on macroeconomic policies and their impact on projects and are making significant efforts to strengthen the private sector.

ENVIRONMENTAL IMPACT OF PROJECTS

They are also taking greater account of other important areas, such as the environmental impact of their projects.

Mr. Chairman, I want to commend you personally for the important role you played in sponsoring legislation which focuses on environmental concerns.

In conclusion, I would urge this committee to support our budget request to assure that the MDB's will be able to play a vital role in addressing the serious, fundamental problems of the international economy. I hope that I can count on your continued leadership, Mr. Chairman, to assist us in securing the necessary support.

FAIR EXPORT FINANCING PROGRAM

Although I did not mention it in my prepared testimony, I would like to underline the importance of another administration request which is before the committee. I refer to the Fair Export Financing Program, which is the President's proposal for a $300 million war chest to combat predatory tied AID credits. The war chest is a key element of our attack on foreign unfair trade practices.

It is essential if we are to persuade other countries to accept limits on the commercial abuse of such credits. We have drafted a proposal which is cost efficient and which will specifically target those users of tied AID credits who are delaying a negotiated solution. Authorizing legislation has been introduced in both Houses of Congress, and we hope that a final product will be approved very soon.

I would appreciate the committee's prompt and sympathetic attention to this request, as well.

Parenthetically, Mr. Chairman, I have enjoyed working with you on the President's tax reform proposal last year. I look forward to working with you, as well, as the Senate considers this matter during the course of this session.

Thank you very much, and I would be delighted to try and respond to questions the committee might have.

Senator KASTEN. Mr. Secretary, thank you, and thank you for your comments and particularly your comments on the efforts that we have made on the environment, not just the project in Brazil, but some of the other actions we have taken. I have some specific questions about that which I intend to ask a little later.

MDB REPLENISHMENTS

A number, as you pointed out, of the Multilateral Development Banks are up for new replenishments. You have begun, in part, some of your consultations with the Hill. You talked a bit about negotiations with other countries. Truthfully, I think that we are on a collision course here, in that your testimony today is in direct contradiction to not only the kind of talk that we are hearing in Republican and Democratic caucuses now, but the kind of action that is envisioned by the Foreign Operations Subcommittee in the House, as well.

While I might be able to normally suggest that the bank funding could remain the same; that just doesn't seem to be or, I should say, it isn't the political attitude right now.

The House indication is that some programs are going to be cut in half, in the view of a number of members who have suggested that foreign aid overall be substantially reduced. You may be familiar with the informal discussions that are going on right now or have been going on in Pete Domenici's office as we are trying to get a function 050 and 150 number and to try to come forward with some kind of agreement. The foreign aid numbers are being driven down in those informal discussions, also.

REDUCTIONS IN MDB FUNDING

So I think we are going to have a real problem supporting even level funding, particularly for the Multilateral Development Banks. Substantial reductions in U.S. support may be necessary. I just want to say that before discussions on an international basis start taking place, and particularly before they start making any specific commitments, I would strongly suggest, for the out-years, at least, that you wait to see how we do overall, this year, on the 150 account, first of all; and second, on the banks.

You referred in the beginning of your testimony to the fact that we had commitments that we are locked into. But I would like for you to comment on the fact that your system seems to be in direct contradiction to what I view as the mood among my colleagues, particularly the full Senate and the full House.

Secretary BAKER. Mr. Chairman, let me say this: I see our budget request for the MDB's this year as essentially being level funding, if you look at it from the standpoint of our 1986 request.

I recognize that that request was subject to some reductions, including the Gramm-Rudman reduction: but from the standpoint of honoring international commitments, we are not asking for an increase beyond what we committed to during the course of close consultations with this committee and other elements of the Congress—at least as far as the MDB's are concerned, and that is really the only part of the foreign aid budget that I should be speaking to. I suppose you have heard from Secretary Shultz with respect to the other aspects of the budget request, and with respect to where the increased amounts are.

I don't disagree with what you are saying in terms of your assessment of the political situation, the mood, if you will, the constraints that are imposed by very difficult budgetary times. But I do think it is important, when we look particularly at the MDB's, that we focus on two things: One, this request is essentially level funding from the 1986 request; and two, it represents a request for funds that were the subject of international commitments entered into only after close consultation with the Congress.

It is a question of the United States honoring its word, in effect. So I see it a little bit differently. Your comment about the out-years I acknowledge, and I think it is quite appropriate. It is something we have to keep in mind, and we will keep in mind.

We do not plan to go out and engage in negotiations with respect to commitments that we don't have close discussions with you about.

Senator KASTEN. I just want to follow up by saying we discussed this a year ago, and I have also discussed it with the former Secretary of the Treasury, Don Regan, that the commitments when you make them, basically, are predicated on the ability to appropriate the dollars through Congress.

Now I know that is not necessarily the way the negotiators understand them, and it certainly isn't the way the foreign governments want to have it interpreted, but I think it is important that we recognize here and that we restate or reemphasize the fact that those commitments made on behalf of the administration are predicated on the ability to appropriate those dollars through the congressional committees.

They are all subject to the congressional approval, and I just want to suggest to you that life has been difficult over the last couple of years. The reason we didn't reach your request last year was because the dollars just simply weren't there and the political will wasn't there, and I feel that the dollars are less and the political will is a good bit lower than it was a year ago.

We are going to work with you, and I recognize the importance of trying to work with a number of these different MDB's. But at the same time, we have got a whole set of problems coming within this account, and the MDB's are going to have to take their share of the scrutiny and, possibly, their share of the reductions.

Secretary BAKER. Mr. Chairman, may I just say one final word before we leave that subject? We certainly recognize that these commitments are subject to congressional approval, but one of the reasons that we try never to commit prior to discussing these matters in detail with you is so that there is at least a reasonably good expectation of congressional approval. That is why we come to you in advance, before we go out and publicize an amount.

I realize that we have got the authorization process and the appropriations process to go through. But I think that working together, hopefully, we can overcome the problem as presented by having to negotiate international commitments that are then subject to a second budgetary step.

CRITICISM OF SEOUL-ANNOUNCED PLAN

Senator KASTEN. Let me switch to the plan that you announced last September. There was a Hobart Rowen column in Monday's Post discussing the plan, one that you announced in September at the IMF meetings. The comment in the paper was that the plan basically had been "downhill from there: The followthrough, after the original excitement faded away, has been disappointing. No banks have stepped forward to lend more money, and the World Bank and Inter-American Developmental Bank are light years away from meeting Baker's target."

Those are quotes from Rowen. Obviously, the debt problem hasn't improved, and in some cases, it is going to get worse. My guess is—and I would like for you to comment—I think it is going to become more difficult for Mexico and Venezuela and other oil-producing countries. At the same time, I have heard you say recently that part of that might be balanced off for some of those countries by the reduction in interest rates.

But nevertheless, I think the debt problem is unlikely to get better in a number of these key countries. I think that I would be interested, then, in your overall assessment of the current Latin American debt situation and how you feel the status of your plan is at the present time. It might be helpful for you to point out banks that, in fact, have stepped forward to lend more money, if they have, and the actions of the World Bank and the Inter-American Development Bank, which they have taken if, in fact, they have, to help meet some of your targets.

Secretary BAKER. First let me say that I think as far as the debt problem is concerned, it is not accurate to say that it is worse today than it was last October when I submitted this proposal in Seoul. I think, quite frankly, that it is on balance better, and I think that the oil price declines and the interest rate declines which we have seen since that time will go a long way toward continuing to ease that problem.

You are absolutely right that it is going to be a lot tougher for certain oil-exporting debtor nations such as Mexico. Fortunately, the proposal that I outlined does not contemplate that we are going to cure a problem that was 10 or 12 years in the making in 4 or 5 months. And I don't think that there was ever any suggestion on our part that there would be instant gratification as a consequence of our coming forward with an initiative that, quite frankly, is founded primarily upon growth-oriented, free market-type economic reforms. That, as I indicated in the speech in Seoul, is the first and foremost fundamental requirement of this proposal.

It is sometimes not easy for debtor countries to accomplish these reforms. It is particularly not easy if they are going to be portrayed as the guinea pig or the number one country, and therefore, we have refrained in the last several months from trying to point the finger at this country or that country or another country and saying, "This is going to be the first example of the initiative at work."

I do believe there has been considerable progress made as far as the World Bank is concerned, Bob, and I think they have completed quite a few sectoral and structural adjustment loans that have a significant reform element in them.

I will be glad to get you a list and submit it after the hearing of the countries with respect to which those loans have been closed.

A country in Latin America that is adopting the kinds of policies we are talking about is Ecuador, because quite frankly, the Government of Ecuador is implementing the kinds of economic reforms that our initiative contemplates.

I would like to say one other thing about the proposal: People who have labeled it a plan perhaps missed the point. It is an initiative; it is a principle; it is a concept. I think it is very valid, as such. I have, as yet, not heard anybody suggest any alternative, save one, which is to simply write down these debts. That, to my way of thinking, is not an alternative, but, rather, an admission of defeat, because what it would mean is not only a serious hit with respect to our banks in this country and other banks around the free world, but also, the possibility of serious consequences for some of the fragile democracies in Central and South America that mean so much to the United States from a geopolitical standpoint.

Senator KASTEN. Mr. Secretary, I think that all of us wish to work with you in terms of the initiative, the plan, the concept, and I look forward to getting the more detailed information to which you just referred.

[The information follows:]

Information provided for the record
listing IBRD loans to promote Structural Adjustment

Structural Adjustment Loans Approved As of
March 31, 1986

Country		Date of Approval	Commitments (US$ millions)
Kenya	I	03/25/80	55.0
	II	07/01/82	130.9
Turkey	I	03/25/80	200.0
& Supplement		11/18/80	75.0
	II	05/12/81	300.0
	III	05/27/82	304.5
	IV	06/23/83	300.8
Bolivia *		06/05/80	50.0
Philippines	I	09/16/80	200.0
	II	04/26/83	302.3
Senegal *		12/18/80	60.0
Guyana *		02/03/81	22.0
Mauritius	I	06/02/81	15.0
	II	12/08/83	40.0
Malawi	I	06/25/81	45.0
	II	12/20/83	55.0
Ivory Coast	I	11/24/81	150.0
	II	07/05/83	250.7
Korea	I	12/17/81	250.0
	II	11/08/83	300.0
Thailand	I	03/02/82	150.0
	II	03/31/83	175.5
Jamaica	I	03/23/82	76.2
	II	06/14/83	60.2
Pakistan *		06/01/82	140.0
Togo		05/17/83	40.0
Yugoslavia		06/28/83	275.0
Panama		11/15/83	60.2
Costa Rica	I	04/16/85	80.0
Jamaica	III	11/20/84	55.0
Togo	II	05/30/85	77.8
Turkey	V	06/14/84	376.0
Chile		10/04/85	250.0
Malawi	III	12/19/85	99.0
Niger		02/18/86	60.0
Guinea		02/11/86	42.0

* Program discontinued.

Sector Adjustment Loans Approved As of
March 31, 1986

Country	Operation	Commitments ($m) IBRD	IDA
FY79			
Bangladesh	Fertilizer Import I		25.0
Jamaica	Export Development Fund	31.5	
Total (IBRD & IDA)		56.5	
FY80			
Bangladesh	Fertilizer Import II		25.0
Sudan	Agric. Rehab. Program		65.0
Total (IBRD & IDA)		90.0	
FY81			
Jamaica	Export Development Fund II	37.0	
Pakistan	Fertilizer Imports Credit		50.0
Tanzania	Export Rehabilitation		50.0
Zimbabwe	Manufacture Rehabilitation	50.0	15.0
Total (IBRD & IDA)			
FY82			
NONE			
FY83			
Costa Rica	Export Development	25.2	
Jamaica	Export Development Fund III	30.1	
Malawi	Fertilizer Credit IFAD		5.0
Mexico	Export Development I	350.0	
Sudan	Agric. Rehab. Program II		50.0
Uganda	Agriculture Rehabilitation		70.0
Zimbabwe	Manu. Sect. Export Prom.	70.6	
Total (IBRD & IDA)		600.9	

Country	Operation	Commitments ($m) IBRD	IDA
FY84			
Brazil	Agric. Credit/Export Dev.	303.0	
Brazil	Export Development I	352.0	
Ghana	Export Rehabilitation		76.0
Morocco	Industrial & Trade Policy	150.4	
Nigeria	Fertilizer Imports	250.0	
Sierra Leone	Agriculture Sector I		21.5
Yugoslavia	Fertilizer	90.0	
Zambia	Export Rehab. & Diversific.	75.0	
Total (IBRD & IDA)		1317.9	
FY85			
Burkina	Fertilizer Credit		13.7
Colombia	Export Development	300.0	
Ghana	Recon. Import Credit		60.0
Guinea Bissau	Import Credit		10.0
Korea	Indus. Finance II	222.0	
Madagascar	Industrial Sector Loan II		40.0
Mauritania	Parapublic		16.4
Pakistan	Energy Sector Loan	178.0	
Philippines	Agriculture Sector/Inputs	150.0	
Turkey	Ag. Sector Policy Loan I	300.0	
Uruguay	Agriculture Sector	60.0	
Zambia	Agric. Rehabilitation		25.0
Total (IBRD & IDA)		1375.1	
FY86	Through March 31, 1986		
Chile	Industrial Restructuring	100.0	
Ecuador	Agricultural Sector	100.0	
Ghana	Industrial Sector Adjustment Credit		53.5
Mali	Urban II		28.0
Morocco	Education Sector	150.0	
Ecuador	Industrial Finance	115.0	
	Small Scale Enterprises	30.0	
Total (IBRD & IDA)		576.5	

SOLUTION TO MEXICAN PROBLEM

Secretary BAKER. Let me say one final thing. We have spent a considerable amount of time over the last week or 10 days in discussions with representatives of the Government of Mexico. While we don't have a solution to announce to that problem, I, nevertheless, believe that there is a desire on the part of all parties, multilateral institutions, creditor country governments, commercial banks and Mexico, itself, to work toward a resolution of the problem in the usual and responsible manner.

Senator KASTEN. Thank you, Mr. Secretary.

Senator Inouye is next.

I would just make a comment to the members of the committee. We didn't use the light system for timing questions. I am just going to informally limit questions in this round to roughly 7 or 10 minutes, and we will just see how we do as we go through the members of the committee.

Senator Inouye?

CALLABLE CAPITAL

Senator INOUYE. Thank you very much. I am afflicted with a problem that all Senators fear the most: laryngitis. [Laughter.]

So I will just have one or two questions, and if I may, I would like to submit the rest for your consideration, sir.

Throughout my service on this committee, it has been assumed by every succeeding administration that callable capital would never be called. I don't know how many dollars we have contributed in callable capital of the MDB's, but do you have any concern that this safe assumption may be changing considering the delayed payments and defaults that we find all over the world?

Secretary BAKER. Mr. Chairman, I wouldn't think so. We have never had a call on callable capital. I am told that the only way you get there would be a very, very aggravated, in effect, doomsday-type scenario. I think the multilateral institutions, quite to the contrary, are in very good shape, and they are not going to be stretching the outer limits of their lending potential in such a way that it is going to result in a call on our callable capital commitments.

EXIMBANK CREDITS

Senator INOUYE. It has come to my attention, Mr. Secretary, that in certain cases, commercial banks will not extend credit, export credit, even on the programs with Eximbank guarantees, and apparently, if a bank has reached a so-called country limit, Eximbank guarantees are not sufficient.

Since I know that we all agree that exports are necessary if we are to sustain this continued growth, does your initiative, your program, include Eximbank credits?

Secretary BAKER. No, sir, it does not include Eximbank credits, but it contemplates that if all the other elements of the proposal fall into place that there would be ongoing cover by the Eximbank to that country.

Senator INOUYE. Finally, this is in followup to the chairman's budgetary concerns. I notice that for the international financial institutions, there is an increase of about $1.2 billion. At a time when we are asked to cut other activities, I am satisfied that it is in our national interest. But if you had to face a high school group or a group of irate farmers, how would you justify this increase in, say, 2 or 3 minutes? That is about all we have, sir.

Secretary BAKER. First, I would say far and away, the largest part of that is an increase in callable capital which has never been called and would be unlikely to be called.

Second, I would say that we are basically characterizing our request as level funding when you look at our fiscal 1986 request. It is roughly $44 million over our fiscal 1986 request, leaving callable capital out.

And the third thing I would say is that this is submitted on the basis of international commitments entered into by the United States in good faith after consultation with the Congress. I would say that the international affairs function of our budget is and should be, for both geopolitical and economic reasons, a high priority for the administration.

I would probably add one other reason: The multilateral institutions, in times of budget stringency, are very cost effective. As my statement indicated, you really do get more bang for the buck because for every dollar we put in, we get $60 worth of lending ability or lending authority.

Senator INOUYE. Thank you very much, Mr. Secretary.

If I may, Mr. Chairman, I would like to submit the rest of my questions.

Senator KASTEN. Without objection. The submitted questions will appear at the conclusion of the hearing.

Senator KASTEN. Senator D'Amato?

Senator D'AMATO. Thank you, Mr. Chairman.

ECONOMIC REFORMS IN CENTRAL AMERICA

Mr. Secretary, one of the problems that seems to confront this plan is that which requires the necessary disciplines and economic reforms that are essential for the aid to be made forthcoming by loans. Because of the difficult internal political problems that many of the countries in Central and South America face, we hear a chorus in the background of concern that maybe those reforms are not attainable. There is a genuine concern over the political instability and fragility of the power structure in many of these countries.

Maybe this is a crystal ball question, but how do you see reconciling that? Are we going to "hard-and-fast" it?

Secretary BAKER. I think you reconcile it, Senator D'Amato, by saying that the alternative is worse and by pointing out that there have been successful efforts undertaken by debtor nations, and they have been extremely successful in some respects.

You know, we get the argument sometimes coming back at us when we are trying to suggest economic reforms as a precursor to additional

capital flows that this can't be done for one reason or another, or "Golly, we can't possibly sell these State-owned companies because the bureaucracy would rise up against us," or we can't open up our financial sector because there would be such a political outcry when, in fact, the financial sector is owned by the State.

I think it is important to make the distinction that we are not talking about austerity-type measures. We are talking about macroeconomic policies or structural adjustment changes that open up these economies. And yes, in some cases, there will be some political resistance to that.

But I think the real answer is that the alternative is far worse, and there have been successful adjustments.

PROBLEMS IN MEXICO

Senator D'AMATO. In dealing with the unique problem that Mexico now faces, which is almost overwhelming, I realize that those negotiations probably will be very, very sensitive. But are we prepared, given the unusual circumstances that they now face, to give them additional latitude in attempting to work with them?

Secretary BAKER. I think it is important that we demonstrate, as hopefully we are demonstrating, that we want to be as helpful as we can be; but that with respect to that country, just as with respect to others, they likewise have to be helpful, and they have got to be willing to, in effect, help themselves.

I think it is important to note that Mexico has chosen to follow the responsible path of sitting down with its commercial bank creditors, with the IMF, with the World Bank and is working along the usual lines that have, in the past, been productive.

Their approach has basically been nonconfrontational, and I think that is a clear plus.

PROTECTIONISM POLICIES OF THIRD WORLD NATIONS

Senator D'AMATO. Mr. Secretary, I only have one other question: There is legislation that the House is considering which ties the debt crisis and the national trade deficit together, the idea being to increase monetary aid in return to those Third World nations who abandon protectionist devices.

I am wondering if you are aware of that legislation and if you would care to comment on that linkage.

Secretary BAKER. I am not specifically aware of the legislation, Senator.

I think it is very important that LDC's recognize that they have an obligation to assist in maintaining the world's free trade system just as industrialized countries do, but I am sorry I am not familiar with that specific piece of legislation.

We will be glad to take a look at it and submit something for the record.

Senator D'AMATO. Very good.

Secretary BAKER. Do you have a number on it or who sponsored it?

Senator D'AMATO. We will get that information to you, Mr. Secretary. Let me say again that I commend you for undertaking these initiatives because, like it or not, we had better put ourselves in the position to assist these nations and to work and deal with their own economic problems. They are directly linked to our own economic stability.

I appreciate the sensitivity and the difficulty of these matters. You are not going to get many people patting you on the back for it, are you? But thank you.

Thank you, Mr. Chairman.

[The information follows:]

DEBT CRISIS AND TRADE

We are concerned that the proposed bill misinterprets the "Program for Sustained Growth" that we introduced last October in Seoul, and which has gained fairly widespread support. In fact, this legislation is counterproductive and could jeopardize the initiative.

The central focus of the initiative is to encourage debtor countries, supported by additional finance, to undertake major economic reforms that would create the conditions for sustained growth of their economies. The most critical element of this approach, which we have emphasized repeatedly, is economic reform by the debtor countries. Without economic reform no amount of money, whether from external borrowing or financial aid, will produce sustained growth.

The major thrust of the proposed House bill, in contrast, focuses on increasing the size and/or the speed of financial flows to debtor countries. To the extent the bill does refer to policy reform, it is limited to the narrow areas of trade and investment, and is unduly rigid. Hence—to repeat—this legislation is counterproductive and could jeopardize the Program for Sustained Growth.

Senator KASTEN. Senator Specter?

Senator SPECTER. Thank you, Mr. Chairman.

Mr. Secretary, I would begin where Senator D'Amato left off, by patting you on the back for a job well done.

Secretary BAKER. Thank you.

Senator SPECTER. It is a very difficult one with so many ramifications. I think you are doing an excellent job.

U.S. COAL MINING INTERESTS

Picking up on Senator Inouye's one question when he asked how you would explain to a group of farmers, I would turn the question a little differently and ask how you would explain to mine workers or perhaps Mr. Rich Trumka, president of the mineworkers, with whom I toured the Emerald Mine in Green County in southwestern Pennsylvania last Friday.

During the course of that visit, Mr. Trumka reminded me about the problem of imports of coal from Colombia which are taking away contracts from his mineworkers, from the American coal industry, where Colombia has been the beneficiaries of not only subsidization from their own government, the Colombia coal interests, but also supports from the Export-Import Bank.

The same situation exists with respect to steel from Brazil. I took a look at the most recent statistics, and in fiscal year 1985, the World

Bank made loans totaling $11.4 billion for development projects worldwide, and of this total, $1.5 billion, or 13 percent, went to Brazil.

So the question is, why should a coalminer from western Pennsylvania or a steelworker from western Pennsylvania pay taxes to the U.S. Government which, then, advances funds to the Export-Import Bank or the World Bank and puts them in Colombia coal or Brazilian steel, which is subsidized back into the U.S. markets and puts the western Pennsylvania coal miner or western Pennsylvania steel worker out of a job.

Secretary BAKER. I think that if that were the only thing that the MDB's financed or contributed to the financing of, I would have to tell you that there would be no justification for your coalminer paying taxes to see them go to that function. But the fact of the matter is, that is only a very small part of what the multilateral institutions do, and you are talking now about the problem of sensitive commodities, not just coal and steel, but copper, as well, and perhaps some others.

We have made it very plain over the course of the past 2 or 3 years that we, the United States, do not welcome projects that promote production of commodities that are in surplus in world markets, such as those commodities.

We have voted and continue to vote against those projects, and I have to say that our actions appear to be having some effect; at least they are having some effect, I know, as far as copper and steel are concerned, because we are seeing far fewer of those projects.

Part of the program for sustained growth, the debt strategy initiative, contemplates more structural adjustment lending, long-term structural adjustment lending by the World Bank and less project lending. More lending so that these countries can get their economies in order, earn their way out of debt, and continue to trade with the United States.

Brazil and Colombia—I don't have the numbers—but they trade a fairly consistent amount with the United States. They buy products that are produced in the United States by Americans. That means American jobs.

So you are quite right with respect to those few projects that go to the production of commodities in surplus worldwide. But that is a tiny fraction, Senator Specter, of the projects that are financed by the Multilateral Development Banks, and we are doing everything we can to discourage such projects.

Senator SPECTER. Mr. Secretary, I would like the specification of what part of it is. You say it is a tiny amount. I would like to know that specifically.

Secretary BAKER. With respect to coal and steel?

Senator SPECTER. No; with respect to the broader range of products which compete with U.S. products unfairly where there are subsidies. I have doubts that it is so small, but let's see what the figures are.

Secretary BAKER. Sure, we will do that.

Senator SPECTER. But any amount, Mr. Secretary, seems to me to be too much. It is very hard to support foreign aid or contributions to the

World Bank given the economic climate of western Pennsylvania, the steel mills and the coal mines.

[The information follows:]

COMPETITION FROM FOREIGN COMMODITIES

Treasury reviews all commodity projects with particular care, especially those considered to be in surplus. In fiscal year 1985 loan commitments by Multilateral Development Banks [MDB's] involving these sensitive areas*—i.e., citrus, coal, copper, cotton, iron, palm oil, shoes, steel, textiles, and vegetable oils—amounted to $240.36 million, or only 1.04 percent of total MDB loan commitments of $23,181.63 million.

To our knowledge, very little of the commodities emanating from projects involving MDB assistance receive subsidies, and some of the output from their projects was for domestic consumption rather than export.

Nevertheless, we will continue to monitor closely the potential impact of MDB projects upon American producers of the same, similar, or competing products. We will not hesitate to oppose such projects where appropriate. As you know, this administration is strongly opposed to export subsidies and to other unfair trade practices.

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*N.B.: MDB project assistance did not go to all of these areas in fiscal year 1985.

WORLD BANK POLICIES ON BRAZILIAN STEEL AND COLOMBIAN COAL

Senator SPECTER. Why can't we change the policies of the World Bank as to Brazilian steel or Colombian coal?

Secretary BAKER. We are.

Senator SPECTER. Why should we support it at all?

Secretary BAKER. We are changing those policies. We are seeing far fewer of these types of project loans relating to commodities in oversupply.

Senator SPECTER. But why any? Why any?

Secretary BAKER. Because the reason we get $60 for every dollar we put up in terms of lending authority and lending ability is because it is a multilateral institution. We do not dictate each and every loan that that institution makes. We have a major say in what they do, and we are using our major say to reform not only the World Bank, but some of the other Multilateral Development Banks.

Senator SPECTER. Have we said specifically that World Bank loans ought not be made to a country like Brazil which subsidizes its steel industry and takes away U.S. jobs?

Secretary BAKER. We don't say loans should not be made to Brazil. We say loans should not be made for the production of commodities in oversupply, whether it is in Brazil or anywhere else.

But there are clearly some loans, it would seem to me, that are appropriate for the World Bank to consider with respect to Brazil, which is the largest debtor nation we have today. Brazil has got to be able to trade with the industrialized world if they are going to pay their way out of these debts.

SPECIFYING BRAZILIAN LOANS

Senator SPECTER. I am not saying that we ought to cut out all the loans to Brazil, but what I am saying is that we ought to cut out loans to Brazil which go to their steel industry. If you can't make it a precon-

dition for U.S. participation, which I would like to see you try, I would at least like to see you try to deal with the specific loans as they impact on U.S. industries, at least make the effort; say, "You ought not do that one. Do this one."

Secretary BAKER. We do that. That is a policy that we follow, Senator.

EXIMBANK LOANS TO COLOMBIA

Senator SPECTER. Have you objected to the World Bank or the Export-Import Bank making loans to Colombia, which finds its way into their coal, which finds its way into the U.S. markets?

Secretary BAKER. We have objected, we have not only objected, but voted against, I think, the last four or five copper or three or four copper projects that have come down the pike; a number of the last steel projects that have come down the pike; and we will be glad to get you the exact numbers.

Senator SPECTER. How about coal?

Secretary BAKER. I will have to check on coal.

Senator KASTEN. Arlen, will you yield at that point? I think there is an important difference, as I understand, as to voting against a proposal or blocking a proposal. In the World Bank, for example, we contribute 17 or 19 percent of the total. The voting is based on a weighted system. The question isn't whether we vote against a loan and make a nice speech; the question is whether we are able, by our power within that organization, not to vote against the loan but, in fact, to stop the loan or the transaction from taking place, and I don't know if the examples that the Secretary has referred to are times in which we have not only voted no, but in effect, blocked the loan from taking place or we simply voted no and it went on, noting the U.S. objection but notwithstanding the U.S. objection.

Maybe the Secretary could expand.

Secretary BAKER. We don't have the power, Bob, to block it.

Senator KASTEN. I understand that you don't have a veto.

Secretary BAKER. That is right, we don't.

Senator KASTEN. It is a weighted voting system.

Secretary BAKER. That is correct.

Senator KASTEN. You are saying we vote no. But I think you might also say, if it is the truth, we vote no, but the loans, nevertheless go through. Maybe we vote no and get other countries to vote no, too, and the loan goes through in the particular instances we are talking about.

Secretary BAKER. I didn't mean to suggest that if we vote no the loan doesn't go through. In many instances, perhaps, it does go through. Unlike the IMF, where we have sufficient votes to give us a veto power over, say, a new allocation of SDR's, we do not have that power with respect to the World Bank. May I say one other thing, Senator Specter?

REFORMS BY DEBTOR COUNTRIES

Our initiative calls for fundamental reforms by these debtor countries. One of the reforms is the elimination of the kinds of subsidies that you are quite rightly talking about that make it almost impossible for us, then, to compete with the production of those commodities in oversupply.

In some cases, though, you find a country whose total export earnings are related to the production of one commodity, such as Zambia and copper. Ninety percent of Zambia's export earnings come from copper. We have got to find a way, and are working to find a way, to assist them toward other productive uses, other productive efforts, rather than the production of copper.

If they don't have capital funds available, there is no way we can move them to another type of activity. So it is not an easy problem to solve. But we are very much aware of it, and we are doing, if I may say so, what we can.

INJUNCTIONS BY U.S. FEDERAL COURTS

Senator SPECTER. Mr. Secretary, I think more has to be done. But let me shift the focus and come back to another way of trying to accomplish the same objective on a subject which you and I have discussed on quite a number of occasions, a subject that I had an opportunity to discuss with the President, the legislation which would open the Federal courts to have the power to grant injunctions to keep out goods which come into this country in violation of existing laws that prohibit imports from coming in which are subsidized or dumped, for example, that violate the multifiber agreement.

Since I had the chance to meet with you and the President last July 31, we are pushing ahead with the bill. It is now near the top of the judiciary calendar in the Senate. We now have the sponsorship and the cosponsorship of Senator Dole and Senator Byrd and Senator Thurmond. I think the chances of getting it passed are excellent. Hopefully, we will come back to your counsel and hopefully, your favorable approval from the executive branch on it.

Internal to some of the activity of the International Trade Commission and looking at a few of the things that have specific impact on Pennsylvania, where the President overruled the ITC decision on footwear; overruled the ITC recommendation on steel in 1984, September—the footwear decision was in 1985; on specialty steel in 1983 and it applied to rolled steel and on machine toolings; no Presidential decision at all for more than 2 years, and the issue is frequently raised that these decisions are made with a view toward foreign policy or Department of Defense interests or State Department interests.

OVERRULING OF ITC RECOMMENDATION ON STEEL

My specific question at this juncture is, what interests are served by the President's action, for example, in overruling the ITC recommendation on steel in September 1984?

Secretary BAKER. I think that that was followed by the adoption of a Presidential program with respect to steel which basically established certain per country limitations and quotas, and that program is still in force and being implemented.

I have to be sensitive to what I testified to with respect to my past life, but I think it is fair to say that the President felt that was a more appropriate remedy than the remedy suggested by the International Trade Commission.

Do foreign policy considerations and Defense Department considerations enter into those decisions affecting trade? Yes, sir, they do, and those ITC recommendations are generally considered in an interagency group. They are now considered in the Economic Policy Council. Back in 1984, they were considered, I think, in the National Security Council, that specific one was.

Senator SPECTER. Mr. Secretary, why not permit a judicial review where you have a case which is made and the evidence is strong but the trade laws of the United States have been violated and steel has come into the country which has been subsidized or the chips dumped from Japan, as disclosed in the last day or two?

ACTIONS AGAINST IMPORTS BY PRIVATE PARTIES

Why not permit private parties to have an effective remedy which would stop those goods from coming into the United States and taking away our jobs? If we have to have the leeway for the variety points that you mention in the World Bank on Brazil and Colombia, where you have a clear-cut case of U.S. law being violated, why not give the Federal courts the power to issue injunctions and have an effective remedy to enforce those routes?

Secretary BAKER. Senator, as lawyers, you and I might think that is the best route to go, but also as lawyers, we know that that would result in a rather substantial increase in the amount of litigation that we now experience. Also, it would, notwithstanding the sometimes fairly long-term delays in obtaining rulings or decisions from the executive branch, delay the process because the judicial process would grind on for a period of time.

But I guess, first and foremost, it would constitute a substantial erosion of the power and authority of the President and the executive branch, and there would be a fundamental shift from the executive branch to the judicial branch. It would be more difficult, under those circumstances, to have a foreign policy or national security input to the decision.

Senator SPECTER. Mr. Secretary, I would say that with respect to the business of the courts, that considering all the diversity and right-angled cases which the Federal courts try, that there is hardly any comparison to considering the litigation which would save tens of thousands of jobs on steel imports from Britain, which are subsidized at $250 a ton, or the chips which come from Japan.

When you talk about delay, you and I have, again, the experience as trial lawyers, and the case of Marathon versus Mobil is a good illustration of a complex antitrust case on the facts and on the law tried in 6 weeks, and when an injunction is issued, it takes effect, unless there is a bond posted, which is very hard to do in those cases.

I think when you talk about the erosion of executive power, you really come right down to it, but I don't believe it is a matter of shifting from the executive to the judicial.

I think it is a matter of honoring the legislative branch for our legal enactments which are legislated, plus the presidential signal, absence a veto and override, where the laws of the United States have been formulated, saying it is against the law to dump and against the law to subsidize, and those laws are not enforced. The reason they are not enforced is that there are these other considerations, foreign policy or defense.

It seems to me that the steel industry ought not to have to suffer for something that is a national interest in persuading NATO or Japan to take on bigger defense interests, just like the farmers shouldn't have had to take the burden on the grain embargo. If it is a matter of national policy, let everybody pay for it.

But you are well aware of the view in the Congress today, the legislation on apparels and textiles passed by big numbers, and the President vetoed those bills, and they are allegely waiting for a propicious time to bring forth an effort of veto override.

Whether that legislation comes through or not is problematical. But it seems to me that the mood of the country is really reflected in the Congress. There is an awful lot of anger out there with the steelworkers and the coalminers and the textile workers and the shoe workers, et cetera, and we are really looking for some relief, at least to enforce existing law, good law.

Secretary BAKER. Senator, I guess I would have to quarrel with you a little bit with respect so your assertion that the laws are not being enforced. I think the law is being enforced the way the Congress wrote it, which was to vest the final authority in the President to review decisions of the ITC.

That is what he is doing. He may not be doing it in a way that comports with your view of the way it ought to be done or that it would be the way you would do it, but I don't think it is fair to say that he is not enforcing the law. I think he is enforcing the law, and if there is a problem with the law, then of course, the Congress will seek to change it. And that is the thrust of your legislation.

But I think reasonable minds can differ and differ honestly with respect to whether that is a good idea. When the Congress passed the current law under which the President is acting, they were of the view that national security interests were important in making these decisions. And therefore, they vested in the President this authority. If they are not important and the Congress concludes that they are not important, they will pass a law taking that authority away. And the

President will then have to consider whether or not he exercises or doesn't exercise his constitutional right to veto, and we go on down the trail.

I really don't think it is fair to say that he is not enforcing the law.

MULTIFIBER ACT

Senator SPECTER [presiding]. I understand your position. You have principles with the Multifiber Act, for example, which limit the amount of goods that can come from Taiwan or Hong Kong, and there are certain goods coming through Australia. Customs just can't keep up with it. Private actions could. Let me shift to one other question, Mr. Secretary.

We are at about the point where I am going to have to leave to vote. Senator Kasten will be back in a moment or two. If I may shift into the tax area for a moment, if that is all right with you, although I know it is beyond the scope of the specific question here.

INVESTMENT TAX CREDIT CHANGES

I have found concern in so many, many lines on very fundamental changes on the investment tax credit and the depreciation to affect smokestack industries or real estate or deductability for sports purposes, just group after group, really pounding at my door these days in a state of frenzy, really, near panic as to what the import of the tax changes will be. And in an effort, we start out to have a flat tax and tax simplification; I don't think we are really getting either.

What is the justification at this juncture for so many changes which have such a disruptive factor on so many businesses? With all the upheaval of 1985, businesses not knowing what was going to happen, now we are through the same process in 1986, and it is so hard to reconcile these interests and to find ways for struggling businesses to survive.

Secretary BAKER. The justification, Senator, is too many decisions today are made strictly on the basis of tax considerations and not on the basis of economic considerations. Our tax code is littered with special exceptions and exemptions and with all sorts of shelter programs that really distort economic activity. Beyond that, there is a genuine disrespect for the tax code on the part of the American people which I think, frankly, translates into a lack of respect for government generally, and it affects your ability to do your job, my ability to do my job. I think there are many, many good reasons why we ought to reform the tax code even if we don't get absolutely everything that you and I would like in a perfect world.

But there are many things that we can get, and I encourage you to take a look at the document that the chairman of the Finance Committee is talking to his committee members about and which I think he is going——

Senator SPECTER. Do you have a copy with you?

Secretary BAKER. No, I don't—which I think he is going to the table with. But the point is this: You are quite right to be concerned about some of the capital formation and depreciation provisions in the House bill; they were far deficient. The President made it clear he wouldn't sign that bill into law unless it was substantially improved in the Senate.

UNUSED INVESTMENT TAX CREDITS BY INDUSTRY

In my opinion, Senator Packwood has substantially improved the depreciation provisions, and quite frankly, there is a provision in there which I certainly think will survive until markup providing for the purchase or the cashing in, if you will, of investment tax credits, unused investment tax credits by industry. It is a provision that I know, from personal experience, is very, very eagerly sought after by the steel industry, and I think that you will find that there will be large segments, if not all of the steel industry, supporting tax reform, if that provision, for instance, survives along with the depreciation provisions that are in the proposed markup document.

Senator SPECTER. That would be a delightful occurrence if it does occur.

Secretary BAKER. I would like to suggest to you that before you pull the plug in your own mind on tax reform you take a close look at the vehicle that will be marked up in Senate Finance. But beyond that, let me just say this: We know we are not going to get as much simplification as we would like, but we can get a code that will promote more economic growth and will be more fair than the present code. A lot of the people that are knocking on your door, if I may say so, Senator, because they have all been down to see us at various times during this process, are people that enjoy a tax shelter of one kind or another.

TAX CHANGES DIRECTED TO LOW- AND MIDDLE-INCOME GROUPS

The President feels very, very strongly that the American people have, for a long time, been overtaxed, and that the House bill has some good elements in it which Chairman Packwood is going to improve upon. If you can get the top marginal rate down to 35 percent, and if you can double personal exemptions for every American taxpayer and dependent, at least at the lower and middle income ranges, such changes would significantly improve our capital formation capabilities which in and of itself is worthwhile.

Senator SPECTER. Mr. Secretary, I will keep an open mind. I will look at it very closely. The subcommittee will now stand in recess for just a few moments. Senator Kasten will be back in a moment. Thank you.

Secretary BAKER. Thank you.

[A brief recess was taken.]

THIRD WORLD DEBT INITIATIVE

Senator KASTEN. The committee will come to order.

Mr. Secretary, I understand that Senator D'Amato and Senator Specter may or may not be coming back, and they may submit questions for the record.

Let me go ahead on a couple of different subjects which I would like to pursue. The first has to do with the Third World debt initiative that we discussed before, particularly as it relates to Latin America. You talk about the overall effort, your initiatives, and you talk about, particularly, the Inter-American Development Bank.

Candidly, I am not sure whether the Inter-American Development Bank, the way it now does business, is geared up to be of much help in terms of the way that you have expressed your interest and needs and desires. The key to your proposal, as I understand it, is that the borrowing countries should introduce economic reforms along free market lines, and as you know, the Inter-American Development Bank, so far, either hasn't been listening to us or hasn't been very interested in attaching these kinds of conditions to their loans.

I know at other times in different places we can get into discussions as to what kind of conditions these should be and that they ought not to be efforts made in increasing taxes on people who work and save and invest, and they ought not to be emphasizing redistribution of wealth, but instead, the creation of wealth.

But generally speaking, the kinds of conditions that we are talking about now, with your strong leadership, I think, are starting to take hold in a number of these multilateral development banks.

The Inter-American Development Bank, so far, unlike some of the others, has been unwilling or unable to attach conditions to its loans. Until that institution significantly changes the way it does business, it, therefore, can't be much help to the goals that you and I and the administration share.

ACTION BY IDB IN SOLVING DEBT AND GROWTH PROBLEMS

Are you going to be undertaking any basic efforts, any necessary forcing changes in the Inter-American Development Bank so that that institution can be more helpful in solving the overall debt problem and the growth problem in Third World countries?

Secretary BAKER. Yes, we are, Mr. Chairman, and we have already begun that process. We have had one meeting with representatives of the bank and with representatives of the other member countries in the bank to discuss the kinds of reforms that you have just pointed out.

Senator KASTEN. But so far, they are saying, "Fine, we will discuss them, but we are not willing to attach specific conditions to our loans."

Are you making any progress in that direction?

Secretary BAKER. Let me put it this way: We will continue to push for appropriate conditionality in loans. The whole concept of our program for sustained growth relies on that principle, and it has only been 3 to 4 weeks since we had the initial meeting. So we will keep after it, but I am not in a position to tell you, as we sit here today, that they have agreed to this.

But we are going to be talking about a number of things that are of importance to them, including replenishment and that sort of thing, so we will continue the discussions.

GUIDELINES FOLLOWED BY IDB

Senator KASTEN. Mr. Secretary, let me say on behalf of the committee that we are anxious to work with you toward the goals that we have just outlined. We are anxious to work in any way possible in terms of appropriations to try to encourage the Inter-American Development Bank to begin to follow these basic guidelines.

Secretary BAKER. Thank you, Mr. Chairman.

EXPORT POLICY

Senator KASTEN. Senator Inouye talked briefly about export policy. You have endorsed the proposal of the $300 million so-called war chest to help export financing. I support that proposal; a number of us on this subcommittee support that proposal because we, in fact, proposed a $1 billion war chest last year to serve as a deterrent to predatory financing practices of foreign countries.

But I am concerned and a number of people in the export community are concerned that a one-time, $300 million sum is simply inadequate to either meet true export financing needs or to serve as a deterrent. I am not sure that that amount can work for either. I am particularly disturbed to find out that the administration only expects to outlay $16 million. That is in the book right here; $16 million is all they are talking about for the so-called war chest in 1987.

So the administration is being accused by a number of people, and I think they may be right, of putting up a huge number and of doing a trick with mirrors and paper clips and smoke in terms of the real commitment, and at the same time, we are backing away from the Eximbank, from what I look upon as the real power of the Eximbank by eliminating the direct loan program.

First, do you believe that $300 million is adequate to make a real dent in trade practices, either in terms of a deterrent or in terms of meeting financing needs; and second, is it realistic to expect that only $16 million would be spent in 1987?

Secretary BAKER. Mr. Chairman, I do think that $300 is adequate to make the dent that you refer to. The reason you are only talking about $16 million in outlays during that period is because it takes so long for these projects to pay out. I think you will notice in there somewhere, we are talking about actually committing $200 million of the $300 million. It is just on the outlay side that you only get $16 million coming out during that period.

This does not in any way diminish or lessen the ability of the Eximbank to conduct its programs. It is supplementary of those; I believe it even enhances them.

EXIMBANK DIRECT LOAN

Senator KASTEN. The administration is cutting out the direct loan for Eximbank, so it is not supplementary to, it is instead of.

Secretary BAKER. But they are not doing that because of the $300 million war chest. That was a proposal that was in the prior budget, as well. That is a general budgetary objective of the administration.

Senator KASTEN. I understand that.

Secretary BAKER. My point is, you shouldn't look at the war chest as replacement for Eximbank authority; it isn't. It is supplemental to whatever else the administration will support for the Eximbank, and the reason we really want it, Mr. Chairman, and need it is because we have made considerable progress in negotiating an end to this use of tied AID credits, which operates to the distinct disadvantage of the United States. It is an unfair trade practice, and we don't play that way.

TIED AID

Senator KASTEN. Is tied AID credit or mixed credit the same?

Secretary BAKER. Yes, sir, same deal.

We have made pretty good progress negotiating the establishment of a minimum grant element up near the 50 percent range so as to basically end the practice. But we have had trouble with one or two countries. We have, and I don't want to start pointing fingers here——

Senator KASTEN. One of them might start with an F. [Laughter.]

Secretary BAKER. Let me just say this: It would sure help us—and we are only a month away from the OECD where this subject is negotiated and discussed—to have that in our bag of tricks before we go to the OECD.

We have made considerable progress; there have been only two countries, really, that have been dragging their feet on this. We have made considerable progress during the course of the past year with one of those countries, and there is one of them that is still a little reluctant.

But I think that if we resort to something we have been reluctant to do, and that is, begin to fight fire with fire, we will begin to get the attention of the other country.

Senator KASTEN. I am reminded by my staff that it is only the State Department employees that normally don't name countries. The Treasury Secretary can certainly name countries.

Secretary BAKER. I did once. [Laughter.]

WAR CHEST

Senator KASTEN. I wasn't talking about the so-called war chest in terms of a difference in policy, frankly, Mr. Secretary. I was talking about it because, in effect, some people are trying to put this all into one bag and are trying to dampen some political problems that we have in this overall trade area and as cover for, once more, not asking for a direct loan program of the Eximbank, knocking it out after we put it back in; that people are saying, yes, but we have got this thing on here, and we have got this other thing, and everything is going to be fine.

As you know, a number of us disagree with that. Last year, a number of us were able to fund a direct loan program for the Export-Import Bank, and we view that program to be very important, still.

Secretary BAKER. Let me just say this, if I might, Mr. Chairman. Those of us who have some direct responsibility in trying to end the practice of mixed credits or tied aid are not using it for the purpose

that you suggest; we very much would like to have it to see if we can't make some further progress in eliminating that practice.

EXIMBANK DIRECT LOAN PROGRAM

Senator KASTEN. I don't disagree with that. We were pushing the administration toward some kind of mixed credit programs, and it took a couple of years to push Draper and others at the Eximbank who said, No. 1, the bank is here to make a profit; and No. 2, the bank is here to work with AID and mixed credits make sense.

We have gone forward, but still, can you explain, other than budgetary reasons, why the administration doesn't support the direct loan program on the Eximbank?

Many people feel that the changes being proposed to this program, essentially, is going to eliminate the entire effort that the Eximbank is trying to make. I know we are going to get some help with the lower dollar figures, and I know there is going to be some other help, but why won't you support the direct loan program, perhaps at a lower dollar amount? Why won't you support the direct loan program of the Eximbank? On an actual cost to the government basis, isn't this program that you are putting in its place actually more expensive than the direct loan program of the Eximbank?

Secretary BAKER. First of all, again, we are not putting it in its place. We are not seeking this war chest as a substitution for the direct loan authority. I am really not the person to whom you ought to direct the budgetary question with respect to the Eximbank.

I think the main reason that the administration continues to seek elimination of the direct lending authority of the bank is budgetary. I believe that is the principal reason.

But I am really not the administration official to whom that question should be put.

Senator KASTEN. You don't want to fight that battle this day.

FUNDING OF DIRECT LOAN PROGRAM

Let me just say that last year, we struggled and scratched in order to fund the direct loan program, but it was strong support, not of just this committee, but because of the authorizing committee in the House and the authorizing committee in the Senate, the appropriations in the House and the appropriations committee in the Senate, four for four, everybody wanting the direct loan program.

In the process of doing that, we ended up by shorting some of the MDB's that you, in fact, have a direct responsibility for.

Secretary BAKER. That is right.

Senator KASTEN. This is all coming from this 150 account. We either have to be convinced that some of the changes that are taking place are going to keep helping our people in exports or the whole process gets affected, some directly and some indirectly. I hope you can work with us on this. I think the administration is making a mistake, and we have yet to be convinced that we have an adequate, aggressive stance in this area.

ENVIRONMENTAL CONSIDERATIONS IN BANK LENDING

Let me switch to the final topic that I would like to cover on the record today. That is in the continuing resolution. You referred to this in your statement, and I thank you. We were very critical about the environmental practices of the Multilateral Development Banks. I know that you also are concerned about the environmental problems at the World Bank. We were able to bring that particular set of problems to your attention. I know you also share our concern about not just the World Bank, but the Inter-American Development Bank, the African Development Bank, and the Asian Development Bank.

I wonder if you could describe in any more detail the progress that you think that you are making on these fronts?

Secretary BAKER. I think we are making progress with respect to the World Bank, Mr. Chairman, and I think that the initiative has been very positive. I have been in touch with Tom Clausen with respect to it. We have suggested more lending, for instance, to help preserve tropical forests, and I can't give you a bank-by-bank status report beyond the World Bank. That is, frankly, where the focus of my effort has been, but we, as I indicated in my statement, think well of the idea and the initiative, and we will continue to support it in any way we can.

ENVIRONMENTAL GOALS

Senator KASTEN. My next question, in that same legislation, the continuing resolution, it was provided that the Department of the Treasury report to this committee by March 31 on the progress of the banks in meeting environmental goals. What we are trying to do, obviously, is to bring significantly more attention on this overall area, and the report was to focus on staffing, on institutional changes, and a shift to supporting more environmentally oriented projects.

Can you give us any comment on the status of that report as of today?

Secretary BAKER. I can tell you that we will have the report for you by the end of the month.

With respect to staffing and organization, we have been discussing that, and there are staffing changes that are under consideration. Another requirement was to involve borrowing country environment and health ministers and local health and conservation organizations in project organization. Again, our project directors are instituting procedural reforms to ensure their automatic inclusion. We were called upon to urge environmentally beneficial projects.

I have already alluded to my conversations with Tom Clausen and my letter to him respecting the tropical forests. We were asked to strengthen training in the World Bank Economic Development Institute to the extent that we can be instrumental in that, and I would report the discussions are underway to examine the 90 courses on development which are offered worldwide annually. So those are some of the things we are doing, and we will have a detailed report for you by March 31 as the resolution requires.

Senator KASTEN. Mr. Secretary, I thank you for that answer. I am aware of the fact that a replacement for Mr. Clausen is eminent. I simply want to say, and I will also, as chairman of the subcommittee, address this on my own, but in the selection process, of any new nominee and of the process whereby we will confer and consult and with work with him, I would like to ask that you be sure that he is aware of the concerns that Congress has in terms of the environmental questions and problems that are brought up.

I, as chairman of the committee, and also just simply as a Senator, will also be expressing our concerns so that in the process of this transition, we don't lose some of the positive work that I think we are beginning to see.

I am most concerned about the loans that the MDB's are sponsoring in terms of their leading to the destruction of the environmental resource base. On Africa, we saw a movie not long ago: critical resources like soil, clean water, forest resources, as well as wildlife are being destroyed. Once again, they can't be brought back in a reasonable period of time.

This has been very clearly documented. It is an environmental disaster, but in addition to that, and equally importantly, it is an economic disaster. We want to be working to see real changes in the lending policies of the Multilateral Development Banks to better protect or utilize environmental resources. You have commented on the progress that you are making.

I have got a couple of other questions that relate to that. I look forward to continuing to work with you and thank you for the work that you have done in coordination with this committee in terms of, I think, making some real contributions.

Secretary BAKER. Mr. Chairman, may I just repeat what I think I said last year when you brought this issue up? I am a hunter and a fisherman, and I believe strongly in clean air and clean water, and I support this initiative personally. I just want you to know that. It is not just a function of my job.

SUBMITTED QUESTIONS

Senator KASTEN. Mr. Secretary, I thank you very much for appearing before our subcommittee today. As I mentioned, subcommittee members will have questions to submit for the record. We would ask that you get those answers back to us within a couple of weeks. We look forward to working with you. We know this is going to be a difficult year. We look forward, though, to living up to our worldwide commitments, and also, living within our budgetary constraints.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

Senator Kasten: Secretary Baker. You have two new proposals under your jurisdiction before this Subcommittee this year -- the Fair Export Financing Programs, and the Multilateral Investment Guarantee Agency (MIGA). Let me ask you a couple of questions about the Multilateral Investment Guarantee Agency. How do you differentiate between this Agency and the IFC and IIC?

Secretary Baker: The MIGA will insure foreign direct investment against political risk, unlike the IFC and IIC which lend to and take equity in private sector enterprises. Economic theory as well as anecdotal evidence agree that political risk hinders the flow of direct investment. Where these barriers exist, MIGA's political risk coverage is expected to assist in overcoming them. In addition to providing this coverage, the MIGA -- which is intended to be more than an insurance agency -- will encourage sound investment policies and the removal of impediments to investment flows. In the field of international investment, the MIGA will be the first multilateral institution designed to deal in concrete ways with policy reform in developing countries with the aim of encouraging a greater receptivity to investment flows. To this end, the MIGA -- which will have close links with the World Bank Group -- will be working closely with the IFC, IIC and other multilateral institutions to further advance economic policy reform.

Senator Kasten: Is it envisioned that the MIGA programs will basically be the same types of programs as OPIC's? Why is a new multilateral agency necessary when we have OPIC?

Seretary Baker: Like OPIC, the MIGA will guarantee direct investment flows against political risk. The MIGA, however, is expected to be more than simply an insurance agency. It is also designed to encourage sound investment policies in developing countries thereby stimulating the flow of direct investment to them, as well as enhance the role of the private sector in the development process.

We believe that the MIGA, due to its multilateral nature, will be better placed than a national insurance agency to promote policy reforms. National insurance agencies tend to focus on individual transactions to increase the competitiveness of their investors and not on the broader questions relating to LDC investment policies. In addition, LDCs are likely to view MIGA's policy advice as more impartial than advice given by bilateral insurance agencies.

Senator Kasten: Mr. Secretary, what I am most concerned about is that the development loans the MDBs are sponsoring are leading to the destruction of the environmental resource base.

Critical resources such as soil, clean water, forest resources and wildlife are being destroyed. Once gone, they can not be brought back in a reasonable period of time, if at all.

Not only is this an environmental disaster, but it is an economic disaster, as well.

My question is, are you seeing any appreciable change in the lending policies of the MDBs to better protect or rationally utilize environmental resources?

What is the rate of change your are seeing? Is it fast enough to really protect those increasingly scarce resources?

Secretary Baker: Within the last year, I believe we have seen the beginnings of internal processes in all the banks to reassess how they deal with the environmental aspects of projects. Your efforts, ours and the public attention of the last three years are beginning to have an effect. We are also seeing the Directors in the banks who represent other countries raise these concerns more frequently.

I can not report that the quality of the loans has changed markedly. The picture remains mixed.

I should perhaps stress that some projects are very well done from an environmental perspective. When I say the picture is mixed, I mean that there are some well designed and implemented projects. And there are others where we would like to see some improvements.

The pace of change is not a surprise. While we would have liked to have seen an earlier reassessment of these aspects of the banks' activities, we appreciate that, in some cases, the issues raise significant and profound questions about how the banks approach development activities. We hope the amount of time required thus far is a fair measure of the depth with which the banks are probing the basis for their activities.

If the process continues in good faith, I am hopeful that we will see better resource use and better projects in the coming years.

Senator Kasten: As you know, Mr. Secretary, the banks are very good at developing window dressing to indicate they are responsive, even advocates of, environmental concerns.

I do not care so much about their paper policies, as the product of the work.

What is the Treasury doing to develop a better early warning system to identify potential environmentally unacceptable projects?

How has the Treasury strengthened its review process to act once it has learned of a potentially unacceptable project?

Secretary Baker: Our "early warning system" essentially depends on knowledge about project activity in U.S. missions abroad. About one to two years before a project is presented to the Board of Directors of a bank for approval, U.S. agencies are first notified about the proposal. We query U.S. missions to obtain any available information. If environmental issues are raised, we will meet with bank staff to ascertain how a specific problem will be attacked.

I should stress that U.S. missions may not have detailed knowledge of a project proposal unless U.S. foreign assistance is involved in a related activity or a project proposal has received relatively broad public attention in the borrowing country.

A second query is sent to U.S. missions a few weeks prior to Board consideration.

These two cable requests for information addressed to U.S. missions abroad constitute our formal "early warning system."

Equally useful, information comes to our attention about projects in preparation from a variety of sources. The bank staffs often volunteer information about longer-term lending plans. Public environmental organizations pass on information that we have found useful. Finally, past project activity is often a basis for inquiring about future project plans.

Taken together, these avenues of information do not constitute a fool proof system, but we are confident that enough information on potential project problems comes to light that the bank staff risks embarrassment if environmental aspects of projects are neglected. Since our objective is to encourage proper planning, evaluation and implementation, we are satisfied that the present information base for probing bank activities is adequate.

Senator Kasten: The United States, while the most important sponsor, is only one of the sponsors of the MDBs. Many Western European nations, Japan and Canada also contribute to these institutions. What has the Treasury done to get other sponsor nations to put similar pressure for environmental protection on the banks?

What support have you identified from borrowing nations, both directly from their governments and from citizen organizations, for an increased priority for sound resource management and use?

Secretary Baker: U.S. representatives to several international meetings in recent months have made a point of asking their counterparts in other governments to have their Director look more closely at the environmental aspects of MDB activities. In fact, other Directors from Western Europe have raised concerns at Board meetings with some frequency in recent weeks.

From the steady stream of visitors which we are receiving from borrowing countries, it is clear that there are organizations and individuals who have serious concerns about resource management. Thus far, bank directors representing borrowing countries have raised questions about environmental aspects of projects but without the consistency that developed country directors are beginning to show.

Senator Kasten: Mr. Secretary, one of the goals of the plan you unveiled last October to deal with the debt crisis in the developing world involves promoting sustainable, export oriented growth over the middle to long term in major debtor countries through the loan conditions of the public international financial institutions. Clearly, such growth can only be sustainable in the long term if the natural resource base and environment in debtor countries are not undermined or abused in these countries. How is the Treasury Department planning to ensure that this essential environmental underpinning of future growth in debtor countries is sustainably managed and not undermined in the implementation of the Baker Plan?

Clearly there is a greater need than ever to ensure that MDB lending to developing nations is for economically viable projects that contribute to growth and reduction of the debt rather than exacerbating the economic situation of these nations. I am disturbed by substantial evidence that has been presented in a number of hearings before my Subcommittee and others that the MDBs continue to approve very large loans for a category of projects with a very poor record of past

economic performance: large agricultural resettlement schemes in tropical forest areas inhavited by indigenous and tribal peoples. It appears that there is a considerable record of past failures of such projects, which involve high investments of capital per family to promote agricultural production in areas which as a whole are exceedingly risky and unpromising for sustainable and econmically viable agricultural output due to generally poor soil quality and remoteness from markets. As you know, I have been personally very concerned about one very large World Bank resettlement scheme in Northwest Brazil which has turned out to be an eccnomic disaster as well as an environmental mess.

But the MDBs continue to approve such projects, the latest example being World Bank approval last May of funding for planning and site selection in the Indonesia Transmigration Program, an agricultural settlement program for millions of people to tropical forest regions in that country. This loan is for $160 million dollars and does not even have an appraised rate of economic return. Eighty percent of the money is to go for consultants, and the Bank's own estimates of the rate of economic return on the agricultural settlements for which it is financing the planning are below the opportunity cost of capital in Indonesia and below what the Bank would normally finance.

Mr. Secretary, what is the position of the Treasury Department concerning this particular category of projects and what are the U.S. Executive Directors of the MDBs doing to get the banks to finance economically less risky and environmentally more beneficial alternatives?

Does the Treasury Department feel that it is getting adequate information at an early enough stage on the environmental implications of proposed MDB projects? What could be done to improve the quality of information it is getting from the MDBs on environmental matters?

Secretary Baker: First, I believe that the economic reform programs which debtor countries would be expected to undertake will have to be predicated on a sustainable use of natural resources. The misuse of natural resources which we have witnessed in some developing countries in the past has been expensive, unproductive and associated with significant distortions in the allocation of resources. These are precisely some of the activities which these countries can no longer afford. For example, the subsidized use of irrigation water has led to water logging and land salinization. Projects for the resettlement of populations where there is little potential for economic growth have been expensive. Such activities are among those that need to be re-examined and reformed from a financial and environmental perspective. We anticipate that reform programs will take meaningful steps toward indentifying sustainable uses for borrowing country resources. The reassessment which the Brazilian Government has performed in connection with the Northwest Brazil projects is an example. We are now told that the ambitious network of highways which were once planned in the Amazon will not be continued, although those highways which have been started will be completed.

Second, I believe the World Bank Transmigration project approved last year has been misinterpreted. The bulk of the project consists of land, soil and vegetation surveys for the Indonesian archipelago.

This is basic data that is needed to establish whether any future transmigration activity is justifiable. The Bank does not attempt to assess an economic rate of return on information gathering projects. The nature of the project also explains the significant consultant cost since compiling and interpreting the data will be essential to its later operational use. While an element of the project included the evaluation of specific sites against explicit criteria for the establishment of settlements and the design of settlement models for some sites, the project is not to finance either construction, equipment or resettlement. If the Government of Indonesia chooses to proceed, it will do so with its own resources and, hopefully, on the basis of a sustainable development strategy.

The transmigration program in Indonesia is undergoing significant changes as a result of the budgetary modifications which the oil price decline has forced on the Government of Indonesia. It is not yet clear what the future course of the program will be.

Third, U.S. Directors are being guided to identify and support opportunities for beneficial projects. I have asked our Director in the World Bank to investigate closely the opportunities for enhanced investment in the tropical forest protection and development. We have been examining how irrigation systems might be environmentally strengthened. We are also weighing what other areas might be priority opportunities to encourage environmentally beneficial projects.

Finally, we are satisfied that we are currently obtaining enough information on the environmental aspects of projects to place MDB staffs on notice that these aspects need to be seriously examined and dealt with. The system is not fool proof, but I doubt we could realistically expect to identify all problems related to all projects. It is sufficient, from the point of view of encouraging changes in the way the banks carry out their roles, to identify problems and weaknesses consistently -- which we are doing.

Senator Kasten: Has the Department investigated the implications for long-term sustainable development of natural resources of policies designed to speed up short-term growth in exports and foreign exchange earnings?

Secretary Baker: In the short-term, efforts by developing countries to expand exports and to earn foreign exchange will have to be undertaken on the basis of existing production capacity. Unused capacity will have to be brought on stream, or capacity devoted to domestic consumption will have to be re-oriented to export markets. Significant modifications of production capacity which would have an adverse effect on sustainable resource use are not likely in the short-term.

Senator Kasten: How is sound management of natural resources, which is the basis of long-term development in many borrowing countries, dealt with or considered in the context of your proposal, the Baker Plan?

Secretary Baker: The most important aspect of the proposal in terms of sustainable resource use is the requirement that borrowing countries reform their economic policies to support growth. In the past, the environmentally most damaging development activities have been the result of financial efforts to use natural resources in an unsustainable manner. These will need to be eliminated because the economic gain has usually been negligible.

Senator Kasten: How can structural adjustment loans be designed to enhance sound natural resource management?

Secretary Baker: By eliminating subsidies, by eliminating unsustainable investments and allocating resources in line with their productivity and scarcity, economic reform efforts of developing countries can lay the foundation for sustainable growth. Structural adjustment loans should be in support of such reforms.

Senator Kasten: Mr. Secretary, the Treasury has the lead responsibility in overseeing the MDBs. However, the State Department also has considerable expertize in reviewing internaional development projects and their economic impact. What has been done to increase the coordination between State and Treasury on this problem in the past few months? What additional improvements are you considering?

Secretary Baker: It isn't clear to me there is a problem. The coordination between State and Treasury on MDB projects is quite close on both a formal as well as informal level. Each project is reviewed independently and views are compared and exchanged, not only by the individuals involved on an informal basis but also formally at the weekly meeting of the inter-agency review group, the Working Group on Multilateral Aid (WGMA). I might also add that State has some specific responsibilities to perform for WGMA regarding human rights considerations, expropriation, and the environment.

Senator Kasten: Mr. Secretary. The new program the Administration is requesting for mixed credits is justified on the basis that it is a counter to unfair trade practices. Many of us up here who have been fighting for the direct loan program of the Export-Import Bank have viewed that program as a counter to such practices, and of course as you know, the Administration for the second year in a row has recommended against any funding for the direct loan program.

While obviously a mixed credit program differs from the direct loan program of Eximbank, the purposes can generally be described as the same, and therefore we still wonder why the Administration doesn't support the direct loan program. Perhaps you can give us some explanation of that.

On an actual cost-to-the-Government basis, isn't this program really more expensive than the direct loan program?

Secretary Baker: The Administration has proposed an interest rate buy-down program, known as I-Match, in place of the direct credit program. Under this program U.S. exports will continue to have access to below-market fixed rate financing at OECD Arrangement rates. The difference is that instead of intermediation through the U.S. Treasury, private banks will serve as intermediaries with the U.S. Treasury making up the difference between the commercial interest rate and the Arrangement rates.

The purpose of this program is to provide foreign buyers of U.S. exports with access to below-market financing to the extent permitted under the OECD Arrangement. In contrast, the War Chest is a temporary program which combines grants with normal export credit finance. It is targeted at countries which have impeded our efforts to negotiate limits on the use of tied aid credits, a practice which undermines the discipline of the OECD Arrangement.

Properly scored, the I-Match program will result in a significant reduction in budgetary outlays. On an actual cost-to-the-Government basis, the I-Match program could be more expensive than the direct loan program.

Senator Kasten: Do you fully support the Administration's decision not to request a direct loan program for the Export-Import Bank?

Secretary Baker: Yes. I fully support the Administration's decision not to request a direct loan program for the Export-Import Bank.

Questions Submitted by Senator Inouye

Senator Inouye: Mr. Secretary, Secretary Shultz is fond of telling the Congress that, if we want an effective foreign policy, we should be prepared to pay for it.

Will the funding you have requested for contributions to the Multilateral Development Banks achieve effective policy?

How will you measure effectiveness?

How many countries are expected to reach "maturation" and "graduate" from the development assistance rolls this year? Has the Administration abandoned the concepts of "maturation" and "graduation"? I did not find mention of these concepts in your prepared remarks.

Secretary Baker: Our current budget request reflects the fact that these institutions at our urging have made improvements in their performance and have adopted modest reforms to improve their effectiveness. Measures of effectiveness could include greater reliance by developing countries on the private sector, both domestic and foreign; allowing prices to fully reflect production costs; and, tax policies that encourage saving.

We do not expect any countries to maturate or graduate in the current international economic environment. However, that does not mean the Administration has abandoned these concepts. A key demension of these concepts is to look at a borrower's economic well-being -- as measured by per capita GNP -- in the context of its ability to secure alternative sources of finance. These concepts were not mentioned in my prepared remarks because growth has been stagnant in many of the countries that are close to "maturation", and access to international capital markets by countries that are close to graduating has become more difficult.

Senator Inouye: We used to believe that a $750 million reserve in the FMS guarantee reserve fund was sufficient to provide for any contingent liability on the part of the United States. As the incidence of defaults and delayed payments in the FMS program increases, this "safe" assumption is more and more questionable. You are, I believe, familiar with this program.

The requested fiscal year 1986 limitation on callable capital contributions to the Multilateral Development Banks totals $960.1 million.

Do you have any concern that this callable capital might, in fact, be called?

Is there a danger of spreading defaults among MDB borrowers?

What is the total of callable capital contributed by the United States to the MDBs? This is backed by the "Full Faith and Credit of the United States," is it not?

Secretary Baker: No sir, I am not greatly concerned that MDB callable capital might in fact be called. Even if an unlikely catastrophic event were to take place, there are many prior defenses that can be used to forestall a call on the callable capital. For

instance, disbursements on loans could be slowed or temporarily halted; there are considerable reserves to fall back on; and there would be continuing loan repayments.

The total callable capital contributed by the United States to the MDBs amounts to $27.1 billion; of this total, 45.1 percent has been appropriated. All of our contributions to MDB callable capital are indeed backed by the "Full Faith and Credit of the United States."

Senator Inouye: It seems the international economy does not respond well to abrupt change. Sudden shocks are followed by long periods of adjustment. What do you think will be the effects of the plummeting price of petroleum? Several countries of considerable direct interest to the United States -- such as Egypt and Indonesia -- are going to find it difficult to earn sufficient foreign exchange to continue on-going programs with the United States, is that not true?

Secretary Baker: On balance, the effects of lower oil prices will be positive for most countries. In addition, to the direct benefits which oil importers will derive from lower oil import bills, all developing countries can expect to share in the indirect benefits resulting from lower inflation and interest rates and faster developed country growth. While it is true that oil exporting developing countries such as Egypt and Indonesia will on the whole be unfavorably affected by lower oil prices, their problems should be manageable assuming appropriate policies are put in place. For some oil exporting countries these policy changes may require additional external financing.

Senator Inouye: Do you think the effects of the oil price drop will be difficult to manage?

Secretary Baker: Countries will be effected differentially by lower oil prices. The vast majority of countries will be favorably affected by lower oil prices and, presumably, will be able to manage the impacts quite well. For a limited number of oil exporting countries, the effects will be negative, even when mitigated by lower inflation and interest rates and higher growth in non-oil exports resulting from higher overall world growth. A number of these countries have sizable international reserves which can be utilized. For others there could be the need for some significant policy shifts, to adjust to lower oil export revenue levels, requiring difficult political and economic choices. Assuming appropriate choices are made, their situations while difficult should in general be manageable.

Senator Inouye: Will this abrupt shift in the earning capacity of OPEC countries trigger a requirement for an increase in IMF liquidity? What would be the U.S. share of any increase in IMF quotas? Would the U.S. share be in excess of $1 billion?

Secretary Baker: The IMF's current liquidity position is extremely comfortable. Thus, the resources available to the Fund should more than suffice to finance its operations for the foreseeable future. The next review by the IMF of the need for a quota increase will be completed at the end of 1988. Currently, the U.S. share in the Fund's resources is approximately 20 percent.

Senator Inouye: The so-called "Baker Plan" has received considerable attention since you outlined it at the annual meeting of the World Bank and IMF last October. Would you outline this proposal for the record today?

Secretary Baker: Improved growth in the debtor nations is essential to any resolution of the debt problem -- and this must be a central objective of the international debt strategy. The United States has proposed a "Program for Sustained Growth" for the principal debtor nations which seeks to accomplish this fundamental growth objective through mutually reinforcing actions by the debtor nations, the international financial institutions, and commercial banks.

The key elements of this proposal are the adoption by debtor nations of credible, and growth-oriented economic policy reforms. These elements are supported by enhanced and more effective lending by the international financial institutions (particularly the World Bank); and significant net new commercial bank lending. The proposal envisages a 50 percent increase in World Bank and IDB disbursements to the principal debtors, up to $9 billion annually in 1986-88, or about $20 billion in net new credits over this period, after scheduled repayments; and $20 billion in net new lending by the commercial banks over the same period in support of growth-oriented policies by the debtor nations.

Senator Inouye: What are the elements of this so-called "credible policy reform" and can you identify for the Committee any country which has initiated such reform in response to your initiative?

Secretary Baker: This "credible policy reform" includes comprehensive macro-economic and structural policies to promote growth and balance of payments adjustment, and to reduce inflation. Such programs should include: increased reliance on the private sector; more supply-side actions to mobilize domestic savings and foster efficient investment; and greater emphasis on market-opening measures to encourage foreign direct and portfolio investment, capital inflows, and trade.

Some countries which have initiated such reform include, inter alia, Chile, Colombia, Argentina, and Ecuador.

Senator Inouye: What specific assistance could countries which initiate such reforms expect to receive from the United States, and would you propose that the United States contribute greater amounts to the World Bank in order to support the "Program for Sustained Growth"?

Secretary Baker: Industrial countries' economic policy efforts are already making a major contribution in terms of stronger growth in their own economies (which spills over in terms of increased LDC exports and stronger growth) and sharp reductions in interest rates. We believe it is important for industrial countries to maintain official export credits to countries adopting comprehensive, growth-oriented policies. The Eximbank has expressed its strong support for the U.S. debt initiative and reaffirmed its intention to provide assistance that is necessary to support the debtor countries as they undertake sound economic policies.

We strongly support the creation of the Multilateral Investment Guarantee Agency (MIGA) which will provide encouragement to new investment in the developing countries. In addition, we are prepared to consider a general capital increase for the World Bank if each participant does its part and demand for quality lending by the World Bank increases to a level where there is a need for additional capital. The World Bank has ample capacity to increase annual lending by some $2-2.5 billion above FY-85 levels.

Senator Inouye: What amount of "net new lending from the commercial banks" would be required for the plan to succeed and what measures would be required to encourage this lending from the commercial banks?

Secretary Baker: We estimate a need for $20 billion in net new lending by the commercial banks in support of growth-oriented policies by the debtor nations over the next three years. We believe this new lending, in addition to that provided by the international financial institutions, is sufficient within a framework of cooperative efforts, to provide sustainable growth of 5% for the major debtors within the 1986-88 period.

We do not support bank demands for assurance of guarantees or preferred creditor status. Loans that are guaranteed are someone else's risk; by definition they do not increase the bank's exposure. If appropriate reforms are adopted, banks will gain; it is in their own interest to work with troubled clients.

Senator Inouye: In an address to the National Press Club, Inter-American Development Bank President Antonio Ortiz Mena noted that "adjustment" to millions of Latin Americans "has come to connote no work, no pay, little food, and, worst of all, no hope of a quick economic turnaround."

How will the "Baker Plan" alter this perception?

Secretary Baker: The U.S. debt initiative emphasizes that improved growth in the debtor nations is essential to any resolution of the debt problem. However, to achieve this growth, structural changes will be needed to increase efficiency, production, and provide a more rational allocation of resources. Improved growth will allow expanding employment, rising real income, increased savings, and new economic opportunities. The debtor countries know that the process of implementing the debt initiative will depend on their own commitment to improve their growth prospects and will require patience, sensitivity, and flexibility in responding to economic change.

Senator Inouye: One of the most difficult adjustments borrowing countries have had to contend with in recent years has been sharp increases in interest on debt that they had already contracted. How will recent declines in U.S. interest rates affect the Latin American debt crisis?

Secretary Baker: Most of the variable rate debt owed by the Latin American countries is tied to the 6-month London Interbank Offer Rate (LIBOR) for Eurodollars. For every 1% drop in this 6-month LIBOR, the 15 major debtors should save in interest payments approximately $2.8 billion annually. Ten of these major debtors are in Latin America. LIBOR has dropped by 2.3 percentage points from a first quarter 1985 rate of 9.5% to a current rate of 7.2%. This translates into annual savings of approximately $6.5 billion for the 15 major debtors. The savings are even more significant ($11.5 billion annually) as compared to average 1984 LIBOR rates of 11.3 percent.

Senator Inouye: How will the linking of debt repayment to export earnings affect Multilateral Development Bank loan portfolios? (As you know, Peru has said that it will pay its creditors no more than ten percent of its export earnings in any given year?

Secretary Baker: We have no expectation that borrowers from the MDBs will not continue repaying their loans from these institutions in full.

Senator Inouye: The World Bank insists that it be paid before all other creditors. Why should the United States allow the World Bank to demand that repayment of debt to it be accorded a higher status than debt to the U.S. Government?

Secretary Baker: The United States, along with other official creditors, accords the World Bank preferred creditor status because the World Bank, along with the other IFIs, typically continues lending to a debtor country undergoing debt servicing difficulties. As the exposure of the World Bank in the country generally increases, the World Bank is effectively shouldering its share of the financial burden in dealing with the country's problems. An additional consideration is that the World Bank's access to international capital markets could be negatively affected if the Bank's preferred creditor status were altered. As the World Bank is expected to play an increasingly important role in providing finance to the major debtor countries this would be an undesirable development.

Senator Inouye: Last year, the Congress signaled its strong support for the World Bank Special Facility for Sub-Saharan Africa by appropriating $75 million as a direct U.S. contribution to this fund. In its current request, the Administration has again refused to support this important new facility which targets assistance on those most in need.

Why has the Administration declined to support the Special Facility?

Secretary Baker: We feel that support for IDA versus a separate budgetary request for the Special Facility really serves our long term interests better. There is general agreement to the U.S. proposal to use the IMF Trust Fund in coordination with the World Bank to work out a broad and consistent policy framework that each institution would use in negotiating separate but complementary financing arrangements with the poorer developing countries. These countries are largely in Sub-Saharan Africa and primarily borrow from IDA.

We think, frankly, that the Trust Fund/IDA approach is a better approach to the problem than the Special Facility approach.

Senator Inouye: Would you please elaborate on your discussion of the Multilateral Investment Guarantee Agency (MIGA). How will MIGA "promote reform of developing countries investment policies, enhance the private sector's contribution to the development process, and encourage the flow of non-debt capital to developing countries"?

Secretary Baker: The MIGA will provide advice and technical assistance to developing member countries with the objective of improving investment conditions and removing impediments to investment flows. The Agency is also directed to promote and facilitate the conclusion of investment protection treaties among its members. Further, it will conclude bilateral and multilateral agreements with its members to assure that the investments guaranteed by it will receive treatment at least as favorable as that accorded by the member concerned to the most favored investment guarantee agency or State.

By encouraging reforms which reduce or remove restrictions on investment flows, the MIGA will stimulate the flow of equity capital to developing countries. The non-debt nature of foreign direct investment flows is particularly important to LDCs at this time. Direct investment provides needed capital, and the longer run benefits of substituting this source of capital for other types of financing either from official sources or from commercial banks can be substantial. Direct investment expands the resource base of the recipient developing country, contributes to the domestic productive capacity, creates new employment opportunities, and provides needed managerial and technical skills.

Senator Inouye: Why is the Administration supporting the creation of yet another multilateral bureaucracy?

Secretary Baker: The Administration believes that the MIGA will be a valuable new multilateral institution, uniquely placed to advance our policies toward LDC development as well as our own economic interests. The Agency will have a strong mandate to promote reform of investment policies in developing countries. This will make an important contribution to our overall efforts to encourage policy reform in the other multilateral development institutions. The MIGA will also encourage the flow of non-debt capital to the developing countries, many of whom are over reliant on external borrowing. As the flow of direct investment is stimulated, over time, this additional capital can substitute for scarce official resources. The MIGA will therefore complement our international debt strategy and our overall objective of enhancing the private sector in LDC economic development. It addition, it will generally improve the standards for investment protection -- an objective which the United States has a major stake in as the largest international investor.

Senator Inouye: What will MIGA be able to do that the World Bank cannot do?

Secretary Baker: The World Bank is designed to make loans to LDC's for long term economic development and is not designed nor authorized to make political risk guarantees to stimulate foreign direct investment flows. The MIGA may issue such guarantees in order to facilitate the flow of equity capital to developing countries. Due to its strong mandate to promote policy reform, it will also be a valuable addition to the programs we are using to promote policy reform through the multilateral development banks.

The MIGA will also be able to complement existing national schemes through joint and re-insurance, and cooperate with private insurers to provide political risk insurance to new development projects.

Senator Inouye: Will MIGA be subordinate to the World Bank? Will it be able to influence World Bank policies that might be detrimental to MIGA's objectives:

Secretary Baker: MIGA will have close ties to the World Bank, however, it will be legally distinct and financially as well as operationally independent from the Bank. The two institutions will be linked through the President of the Bank who will be Ex Officio Chairman of the MIGA Board and who in this capacity will nominate the President.

The MIGA can have a positive influence on the World Bank's investment policy recommendations. One of the MIGA's central objectives is to promote a greater receptivity to foreign direct investment flows by encouraging sound investment policies in developing countries as well as the removal of impediments to these flows. This is an objective which is shared by the World Bank and can be further advanced by the MIGA.

Senator Inouye: You say that MIGA will be "a small, cost effective operation requiring little funding." You then say the Administration seeks authorization and appropriation of the full $222 million U.S. subscription in fiscal year 1987. Do you regard $222 million as small?

Secretary Baker: The $222 million U.S. subscription to the MIGA involves only a $22.2 million budget outlay to be paid in cash. While another $22.2 million is also to be budget authority, it is not expected to result in any budgetary outlays and will be held in the form of non-negotiable, non-interest bearing promissory notes. The remaining $177.6 million is for callable capital under program limitations. The potential return to this investment -- which is relatively small in comparison with other MDB appropriations -- is, however, substantial. For example, as the MIGA stimulates private investment flows to LDCs over time, this additional capital can substitute for scarce official flows from both governments and the multilateral development institutions. In addition, the expansion of foreign direct investment flows to developing countries may ultimately allow for a substitution of equity for debt capital. This is particularly important for those developing countries which have become over reliant on external borrowing and is an objective which complements our international debt strategy.

The MIGA will also generally improve standards for investment protection and promote LDC policy reforms. This will encourage a safer environment for U.S. investments and thus will advance our own economic interests.

Senator Inouye: I recognize that $177 million of this request is for callable capital. Nonetheless, if approved, MIGA will be a new organization without a proven record of success. How, then, can you be so certain that the callable capital will not be at risk? How do you know that we will not have to draw those funds from our Treasury?

Secretary Baker: The MIGA is committed to carry out its activities in accordance with sound business practices so as to ensure its ability to meet its financial obligations. It is designed to be self-sustaining, relying on earnings from premiums, fees and investment of paid-in capital. MIGA's strong links to the World Bank and the nature of the Board of Directors offers strong reassurance. In addition, MIGA's financial viability is strengthened by the financial interest that both developing and industrial country members will have in its success. Thus, we believe that recourse to the promissory notes and the callable capital is unlikely.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

Senator DeConcini: Mr. Secretary, those of us from copper producing states have expressed continued opposition to the policy of loaning money to developing nations to help them expand government-owned copper production facilities. The Congress has repeatedly adopted language expressing concerns on this issue, including suggestions on how Treasury should proceed to implement a policy on loans affecting commodities which are in oversupply on world markets.

Mr. Secretary, I wonder if you could explain to the Committee what the policy of your Department is regarding loans through the multilateral banks that help expand the production of commodities which are in direct competition with domestic producers and which are already in oversupply on the world market?

Secretary Baker: The Treasury Department, through its interagency review process, analyzes each MDB proposal in terms of the criteria established by legislation and its standard economic/finanicial criteria, e.g., the internal rate of return. In terms of legislative requirements (Section 901: PL 95-118 and the Obey Amendment, Section 609: PL 95-481) all projects producing "surplus commodities" are reviewed in terms of: (a) will exports of the commodity be increased? (b) is the economy considered in surplus? and (c) will there be injury to U.S. producers of the same, similar or competing commodities? The Domenici Amendment (Section 502) requires the United States to oppose projects that increase production of minerals and metal products where: (a) analysis shows that reasonable commercial financing is available; (b) surplus capacity in the industry for that commodity would exist over half the project life; and (c) U.S. imports of the commodity are less than 50 percent of domestic production; where the United States is a substantial producer of such commodities. Under the Garn Amendment (Section 501) the U.S. Executive Directors must oppose any MDB assistance for the production of any copper commodity for export, or for the financing of the expansion, improvement, or modernization of copper mining, smelting and refining capacity.

Senator DeConcini: I read an article in the "American Metal Market" February 19, 1986 edition quoting Jean-Loup Dherse, vice president of energy and industry for the World Bank, as stating that the Bank will consider funding only those copper projects that are cost-competitive at copper prices between 65 and 75 cents per pound. Has the World Bank indeed formally adopted this policy?

Secretary Baker: Yes it has. The World Bank will only consider projects for copper that do not finance new capacity. Any copper project must be viable at current low prices and not depend on the expectation that copper prices will rise. In addition, the Bank's role would have to be highly catalytic.

Senator DeConcini: If so, when will it take effect?

Secretary Baker: It is already in effect.

Senator DeConcini: Mr. Secretary, what about the other multilateral financing institutions? Are they pursuing similar policies?

Secretary Baker: The other multilateral development banks do not

have a formal policy on copper loans, however, they are not actively involved in the copper sector to the extent of the World Bank.

Given present market conditions we do not expect those MDBs to make loans for copper projects.

Senator DeConcini: I understand from the State Department that the Inter-American Development Bank was considering a loan to Mexico for the installation of pollution control devices on a new copper smelter at Nacozari, Sonora. Could you tell me the status of that loan and the approximate price tag?

Secretary Baker: The Inter-American Development Bank is not at this time considering such a loan to Mexico. The IFC had approved a loan for a copper project in Mexico in 1982, but subsequently withdrew it and is no longer considering any form of participation in copper production there.

Senator DeConcini: Are any of the multilateral financing institutions considering any loans for Chile, Peru, Zambia, Zaire, or Mexico which could expand copper production facilities in FY 87?

Secretary Baker: No, there are no upcoming loans in the MDBs that will expand copper production in FY 1987. However, a $90 million IBRD loan and $5 million IDA credit for Zaire for rehabilitation and maintenance of existing copper mining facilities is expected to be brought to the Board of Executive Directors in April 1985. It is not expected that this project will increase Zaire's production.

Senator DeConcini: How do you respond to arguments that loans going to some of the copper producing nations for other purposes do indirectly help increase copper production because these nations are spending their own resources to expand and support government-owned copper facilities and therefore cannot afford to pay for other vital projects?

Secretary Baker: In our experience, the reverse is more likely to be occuring -- the copper production is squeezed for cash to support other areas of the economy. In countries such as Zambia and Zaire, the copper mining facilities have been decapitalized and run down because foreign exchange was not made available for necessary imported parts and repairs. Even in Chile, the government collects most of the copper mining profits to pay for other government expenses unrelated to copper production.

Senator DeConcini: What is the status of the restructuring of Chile's debts? What assistance is the World Bank providing in this effort?

Secretary Baker: In August 1985, Chile's creditor banks agreed in principle to refinance $5.9 billion in Chilean public and private financial sector amortization payments falling due in 1985-87. Signing is scheduled to begin in early April. In addition, creditor banks provided a $1.1 billion new money facility for 1985-86, including a $150 million guarantee from the World Bank. To date, $867 million has been disbursed from the facility.

Agreement has also been concluded on the rescheduling of 65% of principal to official creditors falling due between July 1, 1985 and December 31, 1986. The implementing agreement with the USG (for rescheduling of $104 million) was signed on February 6, 1986.

In support of the 1985-86 financing program, the World Bank provided two facilities. In October 1985, the World Bank approved a $250 million Structural Adjustment loan (SAL), of which half has been disbursed. The SAL aims at promoting non-traditional exports and domestic savings. The World Bank also provided a guarantee for $150 million of a commercial bank loan.

Senator DeConcini: In 1985, the United States approved a record $774.6 million in Inter-American Development Bank and World Bank loans to Chile. The U.S. Congress has raised serious questions about the legality of some of these loans based upon Section 701 of the International Financial Institutions Act, which opposes loans to countries in gross violation of human rights principles. While the Administration contends that the situation in Chile has improved, General Pinochet has again imposed martial law. With at least $723 million in loans currently pending, what will your position be on these loans to Chile.

Secretary Baker: No multilateral development bank loans to Chile are expected to come up for board consideration until the second half of this calendar year. In the meantime, we are continuing to monitor the human rights situation there very closely. Our position on each upcoming loan will be decided on a case-by-case basis as it comes to the board and we will be taking fully into account what takes place in Chile over the next several months.

Senator De Concini: The Environment Management Committee, created in 1983, has been assigned the responsibility of overseeing implementation of environmental policies of the projects financed by the IDB. Currently, 10 projects are under review for special analysis. Of these, six have been approved and three are under consideration. What is the status of these three projects?

Secretary Baker: When the Treasury Department completed its initial review of the activities of the Environment Management Committee in January, three of the projects under review by the Committee were still under preparation. The projects have not yet been put forward for approval, but presumably will be, if satisfactory arrangements on all aspects of the projects can be agreed with the borrowing governments.

Senator DeConcini: The Baker Plan for developing countries' debt problems seems to strike an equitable bargain. If countries undertake specific reforms which will speed up the growth of their economies, the lenders will continue to assist them. A default on the debts would be a disaster for lenders, borrowers, and could result in a paralysis of trade. Are the Latin governments demonstrating support for this program and what specific countries are willing to negotiate with the IMF to implement this plan?

What is being done to broaden the support and give the Latin governments more sovereign interest and make it appear less distinctively America?

Secretary Baker: The Latin countries and the Group of 24 at a special meeting in Buenos Aires have welcomed the U.S. debt initiative's emphasis on growth as essential to any resolution of the debt problems, although they are also pressing for additional financial

measures. Many of these countries realize it is in their own interest to implement appropriate macroeconomic and structural reforms in their individual economies.

We don't anticipate individual statements of support by the debtor nations: They aren't necessary, and implementation is already underway through individual negotiations with the IMF and World Bank. The IMF currently has in place programs or arrangements, or is now negotiating new programs with 11 of the 15 major debtor nations. In addition, the World Bank has structural or sector loan negotiations underway with 13 of these countries.

Senator DeConcini: The current President of the World Bank, A.W. Clausen, leaves in June of 1986. The longer it takes to name a successor, the more it hurts the impetus of this Baker Plan. When will the Administration appoint a successor and who are some of the candidates being considered?

Secretary Baker: Since that question was asked, Barber Conable, formerly member of the House of Representatives, was named to succeed A.W. Clausen as President of the World Bank.

Senator DeConcini: My constituents in Arizona are claiming that the $100 million proposal for aid to the Contras should be used for COLA increases, domestic programs and education. The Administration has proposed an increase in foreign aid while the House has urged major cuts in this aid. Where should cuts be made to protect our international objectives and national interests? Should there be bilateral, multi-lateral, or military aid?

Secretary Baker: The President's FY 1987 budget request was carefully considered regarding the proper balance between the various competing international and domestic objectives. I stand by this budget, and believe that our bilateral, multi-lateral (including full funding for the MDBs), and military aid requests should be appropriated as submitted.

Senator DeConcini: Mexico seems to be facing severe economic problems and will probably require international debt relief from its creditors as it did in 1982. Now the recent drop in oil prices only exacerbates their problems. What steps, if any, is the administration planning to take to address these problems?

Secretary Baker: No doubt Mexico's balance of payments will be hurt this year by reduced oil prices. Nevertheless, declining oil prices are not the primary cause of Mexico's problems this year. The main problem is a budget deficit which was already running at about 10% of GDP before oil prices started to decline. If Mexico succeeds in reducing its budget deficit to a manageable level and oil revenues stabilize, its external financing needs can be met in 1986 without extraordinary measures. The situation is different from 1982 because Mexico has significant reserves and the world financial system is not in imminent danger of collapse.

The Gramm-Rudman legislation limits what the USG can do to help Mexico this year. We do stand ready, however, to assist through the normal financing channels of CCC, Eximbank, Paris Club, and support at the IMF and MDBs. In addition, if Mexico vigorously

attacks the structural problems plaguing its economy, the commercial banks could provide funds in addition to those originally requested by the GOM.

Senator DeConcini: What effects will declining interest rates have upon the developing countries' ability to borrow, and the lending countries' and institutions' contributions?

Secretary Baker: Declining interest rates will clearly benefit debtor countries by easing their debt servicing costs. However, we do not expect lower interest rates to lead to changes in commercial banks or creditor countries' present attitudes towards individual debtor countries' ability to borrow.

Senator DeConcini: Does the decline in the international value of the dollar influence the willingness of commercial lenders to actively participate in Secretary Baker's debt relief plan?

Secretary Baker: The decline in the dollar's value against other currencies probably has a neutral impact on U.S. banks' decisions to lend, since their capital requirements, reserves and balance sheets are in dollars and loans to the less developed countries (LDCs) are partially in dollars. Foreign banks, whose capital and balance sheets are in foreign currencies, should see a resulting decline in the percentage of their assets to LDCs (to the extent these loans are in dollars), a strengthening of their capital position, and should be in a better position to lend. You should bear in mind that roughly two-thirds of commercial bank exposure to LDCs is from non-U.S. banks.

Senator DeConcini: Mr. Secretary, what negotiations are you planning to take and how resilient do you expect to be in dealing with the inevitable subject of IMF discussions with the new government in the Philippines? Should steps be taken to drop the sugar quota?

Secretary Baker: The Administration is unhappy with the sugar provisions of the Farm Bill which require a tight and declining import quota on sugar. This directive is contrary to general trade policy of avoiding protectionism and hurts developing exporting countries. The President has said that he would like the sugar provision changed and we plan to request appropriate legislation.

The goal of our sugar policy would be to end sugar import quotas. However, even under the best of circumstances there will have to be a transitional period in which quotas must be maintained while U.S. sugar prices are brought down closer to world levels.

SUBCOMMITTEE RECESS

Senator KASTEN. This concludes today's hearing. The subcommittee will meet again tomorrow at 10:30 in the morning, when we will receive testimony from Secretary of State Shultz. Thank you very much. The subcommittee is in recess.

Secretary BAKER. Thank you.

[Whereupon, at 3:35 p.m., Wednesday, March 12, the subcommittee was recessed, to reconvene at 10:30 a.m., March 13, 1986.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1987

THURSDAY, MARCH 13, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:38 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr., (chairman) presiding.

Present: Senators Kasten, D'Amato, Specter, Inouye, and Leahy.

DEPARTMENT OF STATE

SECRETARY OF STATE

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF STATE

ACCOMPANIED BY WILLIAM SCHNEIDER, UNDER SECRETARY FOR SECURITY ASSISTANCE, SCIENCE, AND TECHNOLOGY

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF JAY F. MORRIS, DEPUTY ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

OPENING REMARKS OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

This morning, the subcommittee continues its fiscal year 1987 budgetary hearings with an overview of the Foreign Assistance Program from the Secretary of State.

Mr. Secretary, you are most welcome here this morning. You have carried out your responsibilities as Secretary of State in a most commendable manner, and this subcommittee looks forward to continuing to working closely with you again this year as we face a number of very important foreign policy questions and, of course, as we endeavor to provide you with the necessary tools and the necessary resources to carry out that policy in the context of the larger effort going on to reduce the Federal Government deficit.

I am sure you realize that foreign assistance is going to have to be reduced just as other programs are, and we are, obviously, going to be interested in working with you to make sure that those reductions are

done in such a fashion as to cause the least harm to the foreign policy of the United States.

Mr. Secretary, we are somewhat limited in our time today, and I know that you have time limitations also. Therefore, we are going to ask questions using a light system so that we can move through the committee as efficiently as possible, giving each member 8 minutes per turn for at least the first round, and then utilize as much time remaining for additional questions.

I would hope also, in that regard, that you would summarize your statement. The full statement, of course, will be put in the record.

At this time, I would like to ask if Senator Inouye has any opening comments.

Senator INOUYE. I would just like to join you, Mr. Chairman, in greeting our Secretary of State.

Senator KASTEN. Mr. Secretary, thank you for being with us. We look forward to working with you, and we look forward to your statement.

OPENING REMARKS OF SECRETARY SHULTZ

Secretary SHULTZ. Thank you. Mr. Chairman, and members of the committee.

I welcome your opening comments, speaking of the tools and resources needed to implement the foreign policy of the United States, and to further the interests of the United States in so doing.

I will take the hint and ask that my full statement be placed in the record, and I will just make a few comments here as some opening statements of my views. Then we can get right into the discussion.

SECURITY REQUIREMENTS

As we look around the world, I think we see, on the one hand, plenty of dangers and plenty of problems, and we need to look, among other things, to our security. There is before you, taking the 150 Account as a whole, a major and long-term, and well-thought through program to improve the security of our embassies, and the ability of our personnel, who are on the front lines, to operate as securely as possible.

We also see a world of opportunity for ourselves as a country that believes in freedom, and liberty, and democracy, and economic development along the lines that emphasize markets, that emphasize the validity of private initiative, and private enterprise.

It is extremely important for us to be able to pursue those opportunities, and to do so aggressively. It is important because it is very much in the interest of the United States that we see a healthy world with which to trade, that we see a healthy world in which freedom exists, because under those circumstances the degree of threat and turmoil will be lessened.

So it is very much in our interest to have the tools and resources that are called for in the President's budget.

TIGHT BUDGETING IN FISCAL 1987

I am very much aware of the fact that we are operating under a situation of stringency on the budget, and I agree with it. It seems to me quite clear that the kind of budget deficits we have been running, we can't continue to run. We have to get the spending down. The President's budget, of course, takes that fully into account. He projected what is before you, having in mind all of the stringency, but at the same time, having in mind the security interests and the economic interests of the United States around the world.

I am here to support that budget. To the extent that cuts in it need to be made, I think they should be made with great care, and not with the kind of meat axe that I have heard other people swinging—not members of this committee particularly, but people in both Houses of Congress.

I just want to say to you that we will badly damage the interests of the United States if we make major reductions in these budgets. The State Department budget as such is just about exactly the same in dollars as it was last year, the regular operating budget. The only increases are in the security program.

U.S. EMBASSY SUCCESSES

I have testified before many congressional committees, in the Senate and in the House, and talked with individuals about this program, and I have been urged consistently to develop a real program that has a long term scope to it, put it before you, which we have done. It is based on the good work of the Inman Panel. I think, by and large, Members of Congress don't want to shirk at all in doing what we need to do to provide for the security of our people overseas.

The State Department budget, the regular operating budget, is basically unchanged. We get an awful lot of mileage out of our diplomatic missions abroad. It costs us $9.5 million to operate the Embassy in Manila, and I think that Embassy performed very well. If it saved our bases in the Philippines, that is a $12 billion bill.

Our security assistance, and economic assistance, which I know is the main focus of the work of this committee, is a very small part of this budget, less than 2 percent altogether, the whole State Department plus the assistance budgets, and we get great mileage out of it.

If we withdraw the United States from the world, the world will be a much poorer place as a result, and we will feel the impact ourselves. So we have to look very carefully at these accounts, little contributions here and there, as well as the major, mainline contributions and support, the earmarked kinds of things that the Congress has put forward, and the funds in support of our base rights.

ELECTIONS IN SPAIN

I might say that we are not alone in this world in supporting freedom and liberty, and in being ready to stand up for it. I think that one of the most interesting and stirring developments recently—we focused on

what happened in the Philippines, but just yesterday, in Spain, a referendum was held on Spain's attitude toward NATO. It was widely said beforehand that this referendum was bound to lose. Prime Minister Gonzales was advised not to hold it, even though he had promised to. He told me in New York, he said: "I am a politician, and I made a commitment during a campaign, and I am going to carry it out. I think that people will support this because," he said, "I have changed my mind, and I think that it is good for Spain. Here we are, a country that has not had freedom, and now we have it, it means more to us, and we know that if we want freedom, we have to be willing to stand up for it." Lo and behold, look at the vote, by electoral standards, a huge landslide, and not predicted at all by the polls.

It is heartening to see that and many other things all around the world. I simply say to you, Mr. Chairman, and members, this budget is justified by the contributions that it makes to the interests of the United States, and I support it firmly. The President supports it firmly. We obviously want to work with you, if you are going to have to reduce it at all, but I hope that you can go about that process with the kind of tender loving care that every nickel and penny in it deserves.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Shultz follows:]

PREPARED STATEMENT OF HON. GEORGE P. SHULTZ
SECRETARY OF STATE

Mr. Chairman and Members of this Committee:

I welcome the opportunity to speak in support of the President's Fiscal Year 1987 foreign assistance budget request. Our request comes before this Committee at a time of great debate over how to reduce our federal budget deficit. As a former budget director, I know from experience that there are no easy choices. And I am determined to have the Department of State do its fair share in getting the federal budget under control. In fact, the greatest single contribution the United States can make to the economic well-being of the developing world is to get our own economic house in order.

As recent history demonstrates, strong U.S. growth and lower U.S. interest rates are crucial to the rest of the world, and to the developing countries in particular. For example, a fall of 2 percent in U.S. real GNP in 1982 resulted in a 13 percent decline in U.S. imports from developing countries, while 7 percent U.S. growth in 1984 was associated with an 18 percent rise in U.S. imports from the developing world. U.S. interest rates are translated directly into interest payments required from indebted nations. In 1983, the U.S. prime rate fell from 15 to 11 percent. That year, interest payments fell by almost $9.5 billion, while the debt outstanding from developing countries actually increased. Greater fiscal discipline in the United States will help the U.S. economy stay on the moderate, non-inflationary growth path projected by the Council of Economic Advisers. This will be a

double benefit to the developing countries: We will be a good market for their exports, and lower interest rates will relieve some of their daunting burden of debt. Together, a 4 percent growth in the U.S. and another drop in United States interest rates should improve their external position by approximately $10.4 billion in 1986 alone.

One of my responsibilities as Secretary of State is to present to you the essential costs of conducting a successful foreign policy. These costs cannot be wished away. They are required, if we are to safeguard our national security and international interests. We recognize we have a burden of proof to meet in requesting more funds. I can assure you that in preparing this budget, every attempt was made to economize.

Our foreign assistance request, which seems higher when compared to the post-Gramm-Rudman-Hollings levels of FY 1986, is essentially the same as we requested in FY 86. We are not seeking large increases in foreign assistance; rather, we are continuing to seek a level of resources adequate to meet our commitments and safeguard our interests. As the President has observed, national security has to be our government's highest priority. The resources we are requesting have been accommodated within the FY 87 budget and the $144 billion deficit target contained in the Gramm-Rudman-Hollings legislation.

Mr. Chairman, the support that Congress has provided in the past has been invaluable in strengthening America's position in the world. As I shall explain later in greater detail, the growth and deployment of our foreign assistance assets have contributed to major foreign policy successes:

-- The NATO Alliance is strong.

-- Democratic institutions have emerged throughout Latin America and in key countries elsewhere.

-- We have an enhanced security posture in Central America, the Caribbean, and the Pacific Basin.

-- There has been a dramatic shift in Third World economies away from statist solutions and towards free markets.

-- We have maintained the peace process in the Middle East, by an active diplomacy but also by steady support for our friends on both sides who are being asked to take risks for peace.

-- We have given effective support to those who fight for freedom and independence in their own countries.

We must consolidate and expand these accomplishments as we continue to explore new opportunities for peace and stability. To meet these objectives, we have constructed a budget which reflects our essential needs.

Budget Overview

The FY 1987 budget request before this subcommittee totals $15.5 billion: $1.1 billion above the FY 1986 "post-sequestration" levels, but only $443 million above the amounts originally requested by the President for FY 1986. Most of this increase reflects the $300 million request for the Fair Export Financing Program.

The major area of increase over FY 1986 post Gramm-Rudman-Hollings levels is designed to restore security assistance to the amounts necessary to meet our international commitments and to pursue our priority foreign policy objectives. Helping our friends defend themselves is our first line of defense. As the President has said "dollar for dollar, our security assistance contributes as much to global security as our defense budget." We must not succumb to false economizing -- leaving ourselves and our friends more vulnerable in areas vital to international security. Vacuums that we create in countries or regions of strategic importance will soon be filled by those less interested in peace and stability than we are. In the long run, this will end up costing us much more than the short-term investments reflected in this request.

Mr. Chairman, I would like to address the four major objectives served by our foreign assistance programs: supporting the Middle East peace process; strengthening our alliances and cooperative defense relationships; promoting regional stability in Central America and the Caribbean; and supporting economic reforms and democratic forces throughout the world. These objectives are interrelated -- and crucial.

Nearly 34 percent of foreign assistance resources go to Israel and Egypt in support of our search for peace in the Middle East. Assistance to the base rights countries of Spain, Portugal, Greece, Turkey and the Philippines and to military access and front line states such as Kenya, Oman, Morocco, Korea, Pakistan and Thailand represents another 26 percent. Our efforts to promote regional stability in Central America and the Caribbean take another 11 percent.

There are other countries of importance to us which share our democratic values, such as India and Colombia; or where new democracies have emerged, such as Bolivia and Uruguay; or where fundamental economic reforms are taking place, such as Ecuador and Senegal; or that are simply strategically important to us, like the island states of the South Pacific.

When these countries prosper and remain free, they demonstrate to the world that the benefits of open societies and open economies transcend geographic size and cultural diversity. They deserve our moral and material support. The amount of funds we are seeking to support these countries is relatively small -- some 17 percent of the total foreign assistance request. The real and symbolic importance of these resources, however, is considerable.

All other country programs account for only 3 percent of the total foreign aid request. Some are poverty-stricken African states to which we are directing our humanitarian and technical assistance programs. Others, like Mozambique, are moving from the Soviet bloc toward genuine non-alignment. Still others, such as Burma and Peru, are active partners with us in the war against international narcotics trafficking. Finally, some 9 percent of our assistance goes to AID non-country programs and a number of generously beneficial efforts including the Peace Corps, refugee assistance and narcotics control efforts.

Mr. Chairman, we have done some tough pruning and made hard choices to come up with these priorities. It is a lean budget and, in our considered view, a minimum budget.

Further reductions would compound our risks, weaken our friends, and add to our dangers. Foreign assistance is a kind

of insurance, shoring up our security. If we try to cut corners, we run the risk of greater dangers that could well exact much higher budgetary and foreign policy costs. If the FY 1987 budget is insufficient, as it is in FY 1986, to fund country programs adequately and to provide the flexibility necessary to meet new requirements in an ever changing world, we deny ourselves the opportunity to build and maintain constructive relationships with dozens of countries throughout the world serving a multiplicity of U.S. interests.

Let me now do a brief tour of the world to discuss the specific policy objectives I outlined earlier.

The Search for Peace in the Middle East

The Middle East remains an important focus of attention. Profoundly committed to Israel's security, the U.S. has sought to strengthen and enhance its relationship with this important partner. At the same time, we have sought to nurture our relationships with the moderate Arabs states, which also have an important role to play in the search for stability in the region.

Over the past year, the U.S. has been engaged with Isreal and Jordan, with support from Egypt, in efforts to bring about direct negotiations between Isreal and its Arab neighbors. Our actions have been guided by our conviction that only through direct negotiations based on Security Council Resolutions 242 can a just and lasting settlement be achieved. A peaceful resolution of the Arab-Israeli dispute is the best guarantor of Israel's security and of the legitimate rights of the Palestinian people. It remains our view that Resolution 242

applies as well to the Golan Heights, and that Syria has a place at the peace table.

The U.S. is not prepared, however, to permit those opposed to peace to obstruct ongoing efforts. The stakes in the Middle East are substantial. Our approach to this challenge must not be fettered by impatience or by short-term setbacks which may be encountered. We must expect that progress will continue to be incremental and must be prepared to help the parties pursue our shared objective of a negotiated settlement in a determined and persistent fashion.

Egypt is uniquely situated to interact constructively with all the parties, and wants to help move the process forward. We value President Mubarak's assistance and support. At the moment, Egypt is engaged in talks with Israel aimed at resolving the Taba border dispute and other bilateral issues, including the return of the Egyptian ambassador to Tel Aviv. We are hopeful these efforts will soon bear fruit.

We likewise continue to follow developments closely in Lebanon, where UNIFIL is playing an important role in helping to provide for stability in the south. Similarly, both the Multinational Force and Observers and the United Nations Disengagement Observer Force continue successfully to perform important peace-keeping functions in the Sinai and the Golan Heights respectively.

We are seeking $5.4 billion in economic and military assistance for Israel, Egypt, and Jordan. We are also in the process of reviewing with our friends in the region their needs for defensive arms. Meeting their legitimate defensive

requirements is critically important to maintaining the credibility of our security role throughout the region and to preserving our role as mediator in the search for peace. Above all, we must strengthen our friends in order to deny the Soviets any opportunities to subvert a region crucial to our interests.

Israel's Economic Reforms

Last year, we sought, and Congress appropriated, $1.5 billion in supplemental assistance to support Israel's economic reform program. Buttressed by this assistance, Israel has made significant progress in stabilizing its economy since last summer. Prime Minister Peres' July 1 measures included a 19 percent devaluation of the shekel, cuts in government expenditures leading to a marked reduction in the budget deficit, a sharp decline in real wages, restrictive monetary policy, and price controls.

The combined impact of new fiscal and monetary measures on inflation has been dramatic. The monthly rate of inflation declined from 27.5 percent for the month of July to 1.3 percent in December. January prices actually fell by 1.3 percent. This has enabled the Israeli Government to keep the shekel/dollar exchange rate stable. Meanwhile, the positive trend in the balance of payments, which began in late 1983, has continued.

Israel ran a substantial civilian current account surplus in 1985 due to continued improvement in its balance of trade and substantial increase in transfers from abroad. This improvement resulted in more than a billion-dollar increase in official reserves, from the mid-year low point, to about $3.2

billion at year's end. Israel's foreign debt stabilized and its maturity structure improved, as short-term debt was repaid during 1985. U.S. economic support funds and disbursements from our FY 85 supplemental appropriation for Israel made an important contribution. The remainder of our supplemental, which was a one-time emergency assistance measure, will be disbursed in FY 86 in support of further Israeli reform efforts.

Notwithstanding the considerable progress made so far, Israel's stabilization program remains fragile. The major challenge will continue to be maintaining control over government spending. The new Israeli budget moves in the right direction, but additional reductions in government spending may be necessary. Recent wage increases are also cause for concern. While real wages have fallen sharply since last July, they are programmed to increase in the December-March period; by April real wages will be where they were last June. Unless offsetting measures are taken to contain the attendant increase in domestic demand and production costs, wage increases of this size could result in renewed inflation and higher unemployment. Future wage increases need to be linked to increases in labor productivity.

Over the longer term, the government of Israel will have to pursue reforms in a number of areas as a means of facilitating noninflationary growth. These include delinking financial assets from domestic price indices, labor market reform, and changes in investment and tax policies. Our recent bilateral discussions in the Joint Economic Development Group have focussed increasingly on these and other economic and investment issues in recognition of their importance to

Israel's long term growth and prosperity. Our discussions with Israel in this forum underscore our commitment and partnership.

In the context of Israel's economic reform, we strongly endorse Operation Independence, a private sector effort to expand trade, encourage private investment, and reduce Israel's dependence on U.S. aid. Spearheaded by a group of dynamic American businessmen, this initiative has already produced tangible results in expanding Israel's exports.

Egyptian Economic Program

Last year, at the Administration's request, Congress also appropriated $500 million in supplemental assistance for Egypt. These funds, along with our regular assistance program, were in support of economic reform. In 1985, the Egyptian government drew up a 13-point reform program. It raised prices for agricultural commodities, for example, and for a wide range of sensitive consumer items; it also raised electricity rates by more than a third and gasoline prices by 25 percent. While these actions are a step in the right direction, they still fall far short of the comprehensive effort needed for long-term economic viability.

The remaining $150 million of the FY 1985 supplemental to support further reform measures will be appllied to priority areas for action, which include reducing the balance of payments and budget deficits, improving the system of debt management, and expanding the role of the private sector. Rapid progress in these areas is all the more urgent now, given the damaging impact on the Egyptian economy of the precipitous drop in oil prices.

The Persian Gulf

We continue to be concerned and vigilant about the Persian Gulf. Strategically located, this region is vulnerable to Soviet expansionism. It remains a major source of energy supplies essential to the economic health of the free world. Our naval force in the Gulf expresses our interest in the security and stability of the region.

We and our Arab friends agree that they should be the first line of defense of the Gulf. Thus, our role -- an essential role -- is to continue reinforcing the defensive capabilities and security of Saudi Arabia and other friends in the Arab Peninsula, both through commercial sales and security assistance. The security relationship we have built with Oman is a vital element of our Central Command strategy. Our military assistance to the Yemen Arab Republic, on the other side of the peninsula, is particularly important in view of the recent destabilizing events in South Yemen.

We are deeply troubled by Iran's intransigent prolongation of its brutal war with Iraq, as well as by the dangers which this war poses for nearby neutral countries and the region as a whole.

We have urged all countries to withhold arms from Iran, and we have offered vigorous support for all the numerous efforts, particularly that of the United Nations, to bring the war to a negotiated end with the sovereignty and terroritorial integrity of both sides intact.

Enhancing Defense and Security Relationships

Around the world, America's alliances and security relationships are sound. We have had some differences with our European allies during the past year. But alliances among free nations will always see expressions of differing perspectives. On the fundamental issues of our mutual security, the Atlantic Alliance remains solid. In fact, we made gains in the past year -- for example, in our bilateral discussions about participation in the research program of the Strategic Defense Initiative.

With the Soviet military threat to Central Europe and Southwest Asia continuing to grow, security assistance designed to improve the defense capabilities of countries on NATO's southern flank is of special importance.

Our security assistance to key NATO allies also helps ensure continued access to strategically important military bases and sustains confidence in the "best efforts" commitments which are the foundations of our base agreements.

We cannot measure our interests in NATO's southern flank solely by our military links. The broad common commitment to Western values has a meaning that transcends these military ties. Spain and Portugal have now joined Europe, in an important symbolic sense, in joining the European Community. This is a triumph for the Western world. On the other side of the Mediterranean, we often hear of problems bedeviling our bilateral relationships with Greece and Turkey. Let us not forget the common interests and shared values that underlie these relations and that establish the basis for the resolution of our difficulties. I view my upcoming trip to these two

countries as part of the process of building on our common objectives.

On the other side of the globe, we continue to regard the U.S.-Japanese Mutual Security Treaty as the pillar of Asian peace and stability. Japan has become our largest market after Canada, and both sides are working toward resolving our trade differences.

We are also working with the Republic of Korea, whose security has never been more important to us, on trade issues and mutual security and resolving market access problems in our expanding two-way trade. While we have some serious problems with New Zealand, Australia remains a valued ally.

Our aid programs concentrate on the region's more threatened or vulnerable nations: the Philippines, the Republic of Korea, and Thailand.

We have just witnessed one of the most stirring examples of the democratic process in modern history. We honor the Filipino people and stand ready to assist the Philippines as the Government of President Aquino engages the problems of economic development and national security. We hope that the new Government will commit itself to implement many of the economic and military reforms which reform-minded Filipinos have been advocating for some time.

The levels requested for FY 87 still represent the Administration's request at this time. The full amount is certainly still required. We should fulfill the President's "best effort" commitment made in the context of the last five year review of the military bases agreement.

Continuation of our assistance under this commitment would now serve to underscore that it was a commitment made to the legitimate government of the Philippines, not just to the Marcos regime.

We are reviewing our aid program to see how it can be structured to respond to the neeeds and initiatives of the new Philippine Government. If our review shows that the aid requirements of the new Government of the Philippines exceed the amounts we have programmed, we will have to consider our options. If it becomes necessary after considering such options to change the level of our FY 87 request, or to make changes in FY 86, that would be communicated to the Congress, as quickly as possible, through our established process. We will certainly need the support of the Congress as the new Government engages the urgent economic and security problems it has inherited.

The Republic of Korea continues to confront the greatest threat to its security from its communist neighbor to the north. Tension on the peninsula remains high, and continued American presence and support are crucial, especially during the period up to the 1980 Seoul Olympics.
Our Korean ally is already devoting a large portion of its GNP to defense, but continued FMS credits are needed if Korea is to meet key objectives of its Force Improvement Plan.

Like Korea, Thailand is an ally allocating substantial resources to military modernization and creating a credible deterrent to Vietnamese aggression. We need to support these efforts and assist Thailand in achieving its development goals so that it can maintain a healthy, balanced economy in the face

of its increasing security needs. We need to do this not only because of the importance of Thailand itself but because we have an enormous stake in the independence, prosperity and integrity of the group of ASEAN nations of which Thailand is a part. The ASEAN nations sit astride vital sea lanes joining Asia with the Middle East and Europe. The United States -- indeed most of the free nations of the world -- have a critical interest in keeping them peaceful and open. Our assistance programs in Malaysia, Singapore, and Indonesia help ensure stability and promote progress.

One very important element in our support for ASEAN is the effort to find a political solution in Cambodia. To this end, we are backing the non-communist Cambodian groups resisting Vietnam's occupation of their country.

Following the Vietnamese offensive a year ago that drove their camps away from the Thai-Cambodian border, these forces have concentrated on regrouping and training for guerrilla activity inside Cambodia.

Together, the Khmer People's National Liberation Force (KPNLF) and the Sihanoukist National Army (ANS) have some 9,000 troops currently operating inside the country, with more scheduled to enter. Despite problems that include a serious split within the KPNLF leadership, military resistance leaders are optimistic about their prospects. We are now discussing with interested parties how the U.S. assistance funds for non-communist groups provided in FY 1986 can best support resistance activities. We do not plan to provide lethal equipment, as the groups are already adequately supplied with weapons.

In the Pacific, we are in the process of establishing a new and unique relationship with the Freely Associated States of Micronesia. In the South Pacific we are facing for the first time the threat of increased Soviet interest and activity. The negotiation of a regional fisheries agreement with the nations of the South Pacific which promotes US interests in the area. We hope to reach a final agreement later this year.

In South Asia, the Soviet aggression in Afghanistan has continued for more than six years. Pakistan's staunch opposition to Soviet aggression and its generosity to more than two million Afghan refugees pose an enormous financial burden on Pakistan, which the United States has tried to alleviate through our current six-year economic, five-year military program of assistance. This program enters its final year in FY-87. We must maintain that support, out of loyalty to a staunch ally that faces a direct Soviet threat, and to maintain the pressure on the Soviets to move toward a negotiated settlement in Afghanistan.

Our assistance provides vital support for Pakistan as that country enters a new era of democratization, which began with the lifting of martial law on December 30, 1985. The new civilian government is looking to the United States, which has strongly encouraged a more representative government, to provide continued moral and financial support as the government copes with the continuing Soviet aggression in Afghanistan and the burden of refugees. Pakistan is a poor country, and our assistance also helps it pursue its economic development plans even under the heavy burdens it bears.

We remain seriously concerned over the direction of the Pakistan nuclear program, and we have made it clear to the Pakistani government that our ability to continue our security assistance program presumes their restraint in the nuclear area. We believe our security assistance relationship contributes significantly to our non-proliferation efforts by enhancing Pakistan's sense of security and bolstering Pakisitan's conventional capabilities. Over time, we hope to persuade Pakistan that the pursuit of nuclear weapons capability is neither necessary, desirable, nor in its broader security interests.

Regional Stability and Security in Central America and the Caribbean

Events in Central America and the Caribbean over the past year have confirmed the important link that exists between foreign assistance and U.S. national interests. Our continuing policy of support to pro-democratic forces is enabling democracy to take root and to become self-sustaining.

Guatemala is the latest Central American country to have abandoned military rule for elected civilian government. Elected civilian leaders also have replaced the authoritarian regimes that governed El Salvador and Honduras a few years ago. Nicaragua stands in stark contrast to the democratic regimes which surround it.

A few years ago, critics of Central America and U.S. policy toward that region were skeptical that democracy could gain support in an environment where history and economic hardship seemed to impose such burdens. They are less skeptical now.

They have seen the people themselves, in one free vote after another, demonstrate their belief that democracy is the road to a better life for themselves and their children. They have also seen that our moral support and economic and security assistance can help make the difference between the success and failure of this democratic experiment. If we truly believe in human rights and economic and social progress, we must keep that lesson in mind as the peoples aspiring to freedom turn to us for support in the coming months.

The most immediate danger to democracy in Central America, of course, is the assault on it from Communist Nicaragua, aided by Cuba and the Soviet Union. Democratic El Salvador is an outstanding example of a country that has managed to withstand a communist insurgency, and we have been privileged to play a part by our encouragement and help.

So our policy -- if we keep at it -- is working. All the democracies of Central America look to us for help in defending themselves. We must support them. And we must support Nicaragua's democratic resistance with military and humanitarian aid, as the President is now requesting. This is a moral and strategic imperative.

The Caribbean too is fertile ground for democracy. Cuba is the most egregious exception. In Haiti, after decades of autocratic government and a stagnating economy, the people have new hope of seeing a government responsive to their needs and aspirations. Our policy toward Haiti is the same as our policy toward the rest of the hemisphere. We seek to promote progress toward democracy, greater respect for human rights, and rapid and equitable economic growth. We feel that the Haitian people should choose their own future and we note that the new

government has committed itself to this objective. We hope to be of help as the interim government goes forward with this effort.

On the economic side, the Caribbean Basin Initiative is succeeding in broadening and diversifying the production and export base of the region, laying the foundation for long-term recovery.

Unfortunately, many of the gains have been offset by declines in the prices for traditional exports. In some cases, most notably sugar, the declines in prices are aggravated by our farm bill which will result in a loss of $52.0 million in export earnings by the Caribbean Basin countries. The restructuring of economies to make them less vulnerable to commodity price fluctuations requires a sustained commitment from the political leadership of these countries. It also requires sustained support from the international development community. We will continue to do our share.

Supporting Economic Reforms and Democratic Institutions

Looking beyond Central America and the Caribbean, across the globe, we see further evidence of the powerful appeal of liberty. Democracy is taking root in country after country, demonstrating the vitality and relevance of our ideals.

The past few years have also confirmed the connection between freedom and economic progress. In the early 1980's, this Administration developed economic policies aimed at liberating the creativity of the American people. The results speak for themselves: 9 million new jobs in this country in the last three years, helping pull the world economy out of

recession, with inflation now one-third the rate of five years ago.

The world economy is still troubled. But nations everywhere are re-discovering the basic truth that the source of economic growth is individual creativity, not the state. The same laws of economics apply to developed and developing countries alike, and those that apply its truths are reaping the rewards.

India, the world's largest democracy, is a critical -- and successful -- test case that shows that democratic politics and economic development are not only compatible, but mutually supportive. Under Rajiv Gandhi's able leadership, India is moving into an era of advanced technology and rapid economic growth, spurred on by the liberal economic policies. It is not only an increasingly attractive market for American exports, but is a major participant in the world economy in such areas as computer software and light industrial goods.

India has also assumed an increasingly important strategic role, as it takes its place as a major regional -- and world -- power. It has begun this process by improving its ties with its regional neighbors, including Pakistan. We welcome the improvement in our own relations with India that has taken place last year.

In Argentina, Brazil, Ecuador, Uruguay, Bolivia, and Peru, democratic governments are faced with the daunting challenge of restoring economic stability and establishing the conditions for sustained economic growth. The task for the Andean

countries is further complicated by narcotics trafficking and terrorism. In Colombia, one of the oldest democracies in South America, terrorists and narcotics traffickers are threatening to undermine years of economic growth and progress. We want to help Colombian efforts to meet these threats. To do so, we are seeking modest increases in our security assistance program.

In Peru, a ruthless terrorist organization and a well-entrenched narcotics industry threaten national stability. We applaud President Garcia's commitment to stamp out narcotics trafficking and his determination to end terrorism within the context of democracy and respect for human rights. A mutually constructive relationship with Peru, however, will require greater moderation and cooperation and meaningful economic reform by the Peruvian government. If these actions evolve as we hope, we would need to find increased resources to support the Peruvian effort.

In Africa, young and fragile governments are struggling with the most profound economic crisis in the continent's modern history.

Our adversaries have shown themselves willing to take advantage of the continent's plight, exploiting political-military conditions in such disparate areas as southern Africa, Chad, and the Horn. It is in our own interest to help Africa realize its potential: to fuel economic growth; to monitor and thwart the actions of Libya, the Soviets and their surrogates; and to encourage adherence to improving standards of human rights.

Last year, the world witnessed the devastating effects of the drought which put over thirty million Africans at risk of starvation. The American response was extraordinary. Our

government and private sector contributions provided unprecedented levels of food, as much as the rest of the world combined. The combined effort saved countless lives and we can be justifiably proud of the results.

For the long term, we must encourage Africans themselves to promote the policies that lead to agricultural productivity, economic growth, and stability. There is cause for hope. Some African countries are starting to reject the statist economic policies which proved so disastrous, misallocating scarce resources and discouraging the productive private sectors of the economy.

Our bilateral AID programs are increasingly stressing policy reforms that stimulate private sector productivity. The African Economic Policy Reform Program (AEPRP) made good progress in 1985 in promoting market-oriented reforms in Malawi, Mali, Mauritius, Rwanda and Zambia. This year, we plan to start implementing the President's Food for Progress initiative, which will concentrate on reforms in the agricultural sector needed to provide farmers with adequate incentives.

Diplomacy in Southern and South Africa

Turning from purely economic to more general concerns, no region of Africa is the cause of more debate and concern, both in the United States and abroad, than southern Africa. We are committed to playing a positive role as the region grapples with the twin challenges of containing regional strife and bringing the abhorrent system of apartheid to an end.

In the regional conflict, our aim is to show that military solutions will not work. Unfortunately, the Soviet Union and its Cuban and Angolan allies still have illusions on this score. Over the last two years, the Soviets have delivered an extraordinary $2 billion in military equipment to the regime in Luanda, and have been more deeply involved in the fighting. The visit of Jonas Savimbi to this country should make clear America's determination to ensure that no outside power will be allowed the opportunity to resolve, on the battlefield, the civil war that divides Angola. At the same time, we search for a negotiated solution. As long as negotiations continue, the path lies open to a settlement which would lead to the independence of Namibia and end the intervention of all foreign military forces in Angola.

We are particularly pleased by Mozambique's substantial move toward genuine non-alignment. This is reinforced by major new aid commitments from the West, of which our own aid program is an integral part. We want to encourage this favorable trend. I am concerned that the Congressional restrictions on aid to Mozambique threaten to undo what has been a significant political accomplishment of U.S. foreign policy.

In South Africa, the goal of reform must be to end apartheid and to bring about a political system based on the consent of the governed. The President's Executive Order of last September 9 was designed to convey the united opposition of the American people to the apartheid system. This is a message we continually reiterate in contacts with the South African government. It is also a message we are sending in concrete ways, as we move to build ties with the black community in South Africa.

The aid program mandated by the Executive Order works through private voluntary organizations to train black leaders for the future and to assist black entrepreneurs. We are also providing funds for direct legal assistance to the victims of apartheid and their families. The Human Rights Fund will provide $1.5 million for these and similar projects while about $10 million will be available for scholarships for those disadvantaged by apartheid.

America continues to play a positive role in South Africa, but outside countries cannot, alone or in combination, resolve South Africa's problems. The government there must take the steps that will make it possible for black leaders to negotiate. In turn these leaders must be willing to negotiate themselves. The alternative is the kind of violent upheaval that seldom produces just or democratic solutions.

Multilateral Development Banks and Programs

The Multilateral Development Banks play an important and complementary role in many countries important to the United States.

As developing countries seek to move from crisis management and austerity to a renewal of sustained economic growth, they will be competing for a finite supply of investment capital from the international financial community. These resources will flow where they are welcome -- when conditions are hospitable. A true partnership based on mutuality of interest will have to be forged between the developing countries and the holders of development capital -- the industrial countries, international lending institutions, and the commercial banks.

Last October, at the Bank-Fund meeting in Seoul, Secretary Baker proposed a bold, new comprehensive approach to get debtor countries back on the path of sustained growth. The proposal envisaged a more vigorous World Bank role in facilitating and promoting economic reform and adjustment in debtor nations, as well as greater coordination between the Bank and the IMF in their country programs. The proposal also included a provision for enhancing World Bank and IMF cooperation in providing concessional financing to the poorest developing countries, most of which are located in sub-Saharan Africa.

When Secretary Baker outlined our approach, he stressed that the sine qua non of any comprehensive strategy was a more focused and determined effort of market-oriented structural reform aimed at greater efficiency, more domestic saving, and a more attractive climate for domestic and foreign investment. And, in conjunction with this, he addressed two other key elements designed to provide outside support and encouragement for structural reform: more substantial and better-coordinated assistance from multilateral institutions, and more support from commercial banks.

This was a creative effort, it seems to me, to bring the broader international community into the process of helping solve the debt problem. Both the World Bank and regional development banks are well placed to complement the continued central role of the IMF by providing financing and advice to countries taking the essential steps toward structural reform. The World Bank's considerable expertise can help devise programs for growth through structural reform. It can support these programs through increased lending to promote reform in inefficient sectors of the economy, and through increases in

policy-based lending. The Inter-American Development bank is uniquely situated to help in this effort, as well, but improvements are needed in its institutional capabilities before this potential can be fully realized. Our participation in the multilateral development banks is an integral part of our assistance policy. Continued Congressional support for our replenishment commitments will sustain our leadership role in these institutions.

The new commercial bank lending that Secretary Baker proposed -- $20 billion over a three-year period -- is also a vital part of the near-term effort. Bank lending to the principal debtor countries has been declining, with very little new net lending having taken place in 1985. Increased lending can provide important support for policies to promote efficiency, competitiveness, and productivity -- the true foundations of growth. Such lending, however, will only be forthcoming if there is a clear commitment to adopt and implement such growth-oriented policies.

In Seoul, Secretary Baker also proposed that the World Bank, IMF, and other donors develop joint programs to support medium-term structural adjustment in the world's poorest countries. Africa will be the chief beneficiary. The proposal calls for the coordinated use of $2.7 billion in IMF Trust Fund reflows World Bank funds, IDA monies, and possible increases in bilateral contributions for Africa to support comprehensive economic reform programs. This proposal merits our full support as the development of consistent and coherent country economic reform programs is essential if we are to maximize the efficient use of scarce development capital.

The need for increased coordination between the Bank and Fund has been generally supported; and the U.S. initiative is gaining broad acceptance.

We have addressed the concerns of Fund and Bank members regarding the need not to blur the distinctive roles of the two institutions while achieving closer cooperation and collaboration.

I do not want to leave the subject of efficient use of development capital without commenting on the need of the developing countries to take full advantage of the opportunities of the world trading system. This is essential if they are to achieve their great potential for expansion of output and export earnings.

Restrictive trade practices have only compounded the problems of many heavily-indebted developing countries. All too typically, heavy foreign borrowing has supported fiscal deficits and overvalued exchange rates, putting a great burden on export competitiveness. Import barriers have been erected to protect favored domestic industries from foreign competition. These barriers have severely hampered the growth of trade among developing nations. The developing countries and the industrialized world have one thing in common: all of our peoples are winners if we have a stronger and fairer world trading system. We hope the developing countries will work with us on a new trade round to overcome the narrow interests that threaten our common progress.

Conclusion

In summary, Mr. Chairman, the world remains a turbulent and

sometimes dangerous place. But as we look ahead, we draw strength from our ideals, from our friends and the young democratic nations who have joined our ranks and now look to us for support. America remains a beacon to the freedom-loving peoples of the world. Powerful trends are the side of freedom. That is one of the lessons of 1985.

Another major lesson of the recent past is that realism, strength, and staying power are crucial prerequisites to meeting these international challenges. History won't do our work for us. We have to be worthy of our opportunities.

The President has observed that the responsibility for the economic health of our country does not reside with one branch of our government nor with one political party. The partnerships that must be forged to deal with the federal budget deficit are also critical to meeting the challenges we face in the international arena, many of which directly affect our national security.

The noble tradition of bipartisanship, which brought us so many dividends in the postwar years, does not ask any of us to abandon our principles. But it does require all of us to recognize how much harder it is to meet foreign challenges if we are not united at home. In recent years, we have seen signs of a rebirth of the postwar national consensus -- based on a realistic understanding of the world as it is, and of the need to negotiate differences where possible. The President has asked me to reiterate his commitment to work in a bipartisan spirit with all members of the Congress on behalf of the peace, freedom, and security of this country.

FORCED RESETTLEMENT PROGRAM IN ETHIOPIA

Senator KASTEN. Mr. Secretary, before I talk about some of the parts of the budget, I just wanted to discuss a particular piece of legislation that, yesterday, Senator Inouye, Senator Hatfield, and I, along with 13 of our colleagues, introduced relating to the forced resettlement program being carried out by the Government of Ethiopia.

You are familiar, I am sure, with the reports about the deaths, and the reports about the suffering that the Ethiopian Government's program is causing. Generally speaking, I think that the U.S. Government, especially Peter McPherson, and others at AID have been very forthright in criticizing this activity of the Ethiopian Government.

Unfortunately, it seems to us that international organizations, and many of the private voluntary groups, the PVO's, have decided not to publicly criticize the program, despite the overwhelming evidence that the forced resettlement program is leading to starvation, gross violation of human rights, and, in fact, death.

Mr. Secretary, the Ethiopian situation generally presents the world with a very difficult problem. It is clear that the Government of Ethiopian does not really care, or at least it is indicating that it doesn't really care if hundreds and thousands of people starve, or even die.

Appeals on the basis of humanity have had little impact and they seem almost immune to the suffering and death of their own people.

The world, especially the west, as all of us are aware, more especially the United States of America, responded overwhelmingly when the citizens of that country were faced with death and disease due to drought, and we responded notwithstanding that government's attitude toward the suffering. I suspect that we will continue to respond, both private groups and public groups, so in effect the Ethiopian Government will allow us to save their people.

I am told by staff that at one time there was an office in the United Nations which was set up, in effect, to take over the governing of a country when the existing government was deemed to be so corrupt or so incompetent, or otherwise so totally inept. I don't know if that office still exists. As far as we can tell, it doesn't exist. It would be an extreme action, but something has got to be done in Ethiopia today, where we are putting tremendous amounts of relief, and yet the government has a policy which is still allowing the tremendous hardship, death, and starvation.

What are your thoughts, Mr. Secretary, on the situation in Ethiopia?

Secretary SHULTZ. It is a cruel dilemma as you, I think, analyzed it. I would agree with all the things that you have said.

From the standpoint of the United States, we have been in the forefront of finding out about, calling attention to, and denouncing what has happened. At the same time, we have also tried to have our assistance in a direct way, rather than through the government as such. We have tried to persuade others to do likewise, and to speak up.

These are things that we all agree with. I don't know whether Mr. Morris wants to speak about the method of delivery of the AID

program. Mr. McPherson has been there. He has, as you said, been calling attention to all of this very forcefully, and I think that we must continue to do that.

VOLUNTEER GROUPS IN ETHIOPIA

Senator KASTEN. Could you address yourself, Mr. Secretary, to the problem that at least the committee perceives as to the attitude of various private voluntary groups, and others, who have somehow been reluctant to come forward to describe these questions and problems.

We have to get, it seems to me, a worldwide attention on the policies of this government in order to force them somehow to stop particularly the forced resettlement, the starvation, and the treatment resulting in death.

Secretary SHULTZ. Obviously, I can't speak for those organizations because, if I could, they would handle themselves differently, and would speak up. The United States tends to speak up on these kinds of things more than most countries, and that is one of our virtues, I think. But, again, I don't have on top of my head today a full amount of detail to draw on here. I would be glad to respond for the record, if I could, with any more particular suggestions.

[The information follows:]

PRIVATE VOLUNTARY AND RELIGIOUS GROUP REACTIONS TO SITUATION IN ETHIOPIA

Private voluntary groups and individuals in Ethiopia, from the United States and many other nations, have unselfishly given of their time and of themselves to help innocent victims of drought and famine. Often, this has involved great hardship and sometimes personal danger. Many have told us privately that they are appalled at the callousness and brutality shown by the Ethiopian Government toward its own people. Many have witnessed this brutality.

However, most sincerely believe that their primary duty is to remain in Ethiopia and continue their work. They believe that if they speak out, the Ethiopian Government will force them to leave the country as it forced out the French relief group, Medicins Sans Frontieres, who publicly criticized the resettlement program. However much we desire these relief workers to join us in publicly condemning Ethiopia's forced resettlement program, they perceive this as a moral dilemma and we must respect their choice to remain silent.

RESETTLEMENT AND VILLAGIZATION PROBLEMS

Mr. MORRIS. I have just returned from the U.N. Office of Emergency Operations in Africa [OEOA] meeting in Paris with the other donors, where resettlement and villagization problems were discussed. I am happy to say that the United Nations itself expressed concern over this, as did virtually every other donor in the room.

It is true that some of the PVO's have been more silent on this issue than we, at AID, would like. I went to Ethiopia also, where I met with the PVO's. However, some of them are on record as opposing resettlement. I think that we would all encourage more unanimity and more vocal support on this issue because it is certainly a barbarous policy.

Senator KASTEN. Thank you.

ALLOCATION AND REALLOCATION OF RESOURCES TO SOUTHERN AFRICA

Mr. Secretary, you have referred to the decisions that you are going to have to be making, and that we are going to have to be making, in terms of allocating and reallocating, and dealing with the scarce resources that we have.

You went through part of that process this year in the face of reductions made in the overall program by Congress, and those questions were tough. It is difficult, nonetheless, for some of us to try to figure out the policy behind some of those allocation decisions which the State Department made. A good example would be Africa where two countries, Morocco and Kenya, with whom we have close security relations, had their ESF programs cut in half by the allocations process. At the same time, two other countries, Mozambique and Zimbabwe, were cut by roughly one-third, one just under a third.

Mozambique is basically a client state of the Soviet Union. Zimbabwe is a long way down the road toward a one party Marxist dictatorship. The question is, therefore, why do we treat the latter two countries better than we treat countries with whom we have security relations, and who, in fact, are much more helpful to us on a whole broad range of issues.

Secretary SHULTZ. We don't treat them better. Let me just address myself to the situation in southern Africa, which I think is the burden of your question.

It is a very troubled part of the world, we all know that. We have tried to be part of solutions to the problem, part of trying to stabilize the situation.

ZIMBABWE

In the case of Zimbabwe, the present government emerged there as a result of British intervention. We supported that. We have had our reservations about what has been happening in Zimbabwe, and our level of support has been gradually reduced. It has not been going up, it has been coming down, although we think that it is important to continue to maintain a level of support there, particularly for the kinds of programs and ways of doing things that we think are along the lines of the kind of enterprise and market orientation that we believe in.

MOZAMBIQUE

As far as Mozambique is concerned, in our view, it is a country that potentially wishes to get out from under the domination of the Soviet Union, and we see pretty clear evidence of that, as do many of our allies. So, in a modest way, we have been trying to encourage that development, and the manner of doing it has been to support, particularly in the field of agriculture, the kinds of experiments in providing individuals with a private capacity to produce, and incentives to produce, that will provide an example of a different way of going about things, and in the long run help to move Mozambique away from the Soviet column into a country that has a little different orientation.

There are many things about what is going on in Mozambique that we don't like. We don't like their voting record in the United Nations, although one of the things that is notable is that there has been some slight shift, for example, in their vote on Afghanistan. So there is even some encouragement there. So it is a process of trying to shift the orientation of a country, and I think that we should continue it.

Senator KASTEN. Mr. Secretary, first of all, I know you are aware of the fact that it was this committee that said, if aid is going to be going to Mozambique, that it would go only toward private sector agricultural development, and it is in part because we have pushed that that has happened.

Secretary SHULTZ. You don't have any trouble with us carrying it out that way because our view is similar.

U.N. VOTING RECORD OF MOZAMBIQUE

Senator KASTEN. Of all the countries in the United Nations, Mozambique voted with the United States of America, in the General Assembly, the least. Of all the countries in the General Assembly, 3.9 percent is Mozambique's level of support. The lowest among the entire Warsaw Pact countries is 10.1. Cuba is higher than Mozambique. Vietnam is higher than Mozambique. Afghanistan is higher than Mozambique. Libya is higher than Mozambique. Yet, the African Bureau of the State Department somehow feels that there is a substantial movement toward the West.

I just disagree very strongly. They are continuing to receive arm shipments from the Soviet Union. I think the only substantial movement that we can see is more and more U.S. dollars going there. I just want to express my concern. If they were moving our way, I think that we could be making a stronger case, but right now we see a Marxist government fighting a non-Communist insurgency, and it is difficult for me to see why the United States should assist Mozambique's fight against that insurgency.

Secretary SHULTZ. First of all, this is not properly characterized as the policy of the Africa Bureau of the State Department. This is the policy of the President of the United States, Ronald Reagan, who received Mr. Machel in the White House, had a good talk with him, had lunch with him.

This effort with Mozambique has been discussed extensively with Members of Congress. We didn't create the money that is going there, it was appropriated. I don't say that everybody is enthusiastic, but it is an effort to do something to change a situation, to work with a situation where there is plenty of ambiguity, but where there is some movement. We want to encourage that.

I said at the outset that their U.N. voting record was terrible. However, it has changed slightly. Afghanistan is an interesting vote because it is so sensitive with respect to the Soviet Union. So I don't say that it is a totally new world, but it is a change, and that is what we want to encourage, and that is what we are trying to do in Mozambique.

Senator KASTEN. Thank you, Mr. Secretary.
Senator Inouye.
Senator INOUYE. Thank you very much.

MIDDLE EAST PEACE

Every administration has sought peace in the Middle East, and under your guidance, we find our best. A most important element in the quest for peace has been Egypt. I would like to ask a few questions about Egypt.

Secretary SHULTZ. Yes, sir.

Senator INOUYE. As you know, Mr. Secretary, 10 years ago, we began with $250 million, at that time called "Security Supporting Assistance," and since then it has grown to almost $2.5 billion a year. Today, the total is $20,314,000,000, $8.1 in military, and $12.2 in economic. Yet, reports which we receive, either from the press or through the State Department, would suggest that economic and political stability in Egypt is still illusive.

The result of this massive transfer of assistance from the United States to Egypt, reports would suggest, is that Egypt's ability to earn foreign exchange has not improved. Egypt's agricultural productivity has gone down. Government subsidies have gone up. Egypt has not been able to reduce its dependency on outside aid.

If it is true, and these numbers are correct, it would appear that Egypt is not a stable country. After 10 years of effort and billions of dollars, reports would suggest that we have not been able to encourage fundamental economic policy reforms. The security Egypt has bought through the purchase of arms has been undermined by the cost of military debt. It would appear that after 10 years of aid involvement in Egyptian agriculture, the failure to achieve reforms has left Egypt with a food bill that now exceeds $3 billion a year.

My question is: Is it about time that we evaluate, and reassess what we have been doing?

As a member of this committee, I know the importance of Egypt, and I would like to do whatever I can to be of assistance, but I am not certain that what we have done to date has been the proper path to follow.

EGYPT'S ECONOMIC POLICIES

Secretary SHULTZ. I appreciate your question and, of course, we should be evaluating and examining everything that we do consistently.

I believe that in your question, I know that you are trying to put matters in a questioning way, but I think the judgmental implications in your question are much too harsh.

Egypt has its troubles. What country doesn't? President Mubarak has been trying to move things along. We have had some success with subsidies and economic reforms. We continue to work on those. I will ask Mr. Morris to comment on those in a minute.

I was interested to see how firmly President Mubarak put down the problems they had in Cairo recently, and I think Egypt has been a very

consistent and strong supporter of the peace process and of the efforts to attain more stability in that part of the world. I think that matters a lot.

Certainly, we can sit down and find lots to be unhappy with about the situation in Egypt, and the Egyptians can match us. But they are trying to improve matters, and I think they have made some progress, so I think that we should continue and persevere in what we are trying to do there with Egypt, and with Israel, and in the Middle East, hard as it is. It is very difficult and frustrating, there is no question about it.

Mr. Morris, would you comment on the AID program in Egypt.

AID PROGRAM IN EGYPT

Mr. MORRIS. Yes, sir; just very briefly, to augment what the Secretary has said.

We feel as though there has been some progress, albeit not as much as one would hope in an ideal world, and we are continuing those discussions and evaluations constantly to monitor the effect of our assistance.

For example, the water and sewer rates have been increased. Electricity rates in their rate of increase for the first time exceeded the rate of inflation. There have been production increases in agriculture, particularly in corn and wheat, as a result of some pricing changes. We are looking forward to further freeing up that sector in particular by the elimination of subsidies over a period of time.

The Egyptians have agreed on a 13-point economic reform program, which is the subject of negotiation now regarding the 1986 AID assistance. We believe that they take it seriously, and we are optimistic that the progress I have just sketched for the last year will be continued in the future.

Secretary SHULTZ. May I just add, on the subject of foreign exchange you mentioned, Egypt happens to be a country that is hurt somewhat by the decline in oil prices in their foreign exchange, partly because of the direct effect on their export earnings, and partly because of the general movement down of activity in the area, the remittance levels that they will be getting will be down. So their foreign exchange problems are there all right, but I think the decline in oil prices is one of the major causes of what has happened recently.

POLICE RECRUIT INSURRECTION IN EGYPT

Senator INOUYE. Mr. Secretary, we have had conflicting reports on the recent police recruit insurrection in Egypt. Can you give us your assessment of what happened, and what is being done?

Secretary SHULTZ. I would like to do that carefully, and I can't do it carefully off the top of my head, and give you a statement for the record.

[The information follows:]

CAIRO POLICE RIOTS

Police conscripts, angered by a rumor that their length of service would be extended from 3 years to 4, began rioting in camps in the Giza area of Cairo late in the afternoon of February 25. The disturbances quickly spilled out of the camps and by the next morning had spread to several locations in Cairo and several provincial cities.

In response, President Mubarak called in the army, which moved quickly and efficiently to restore order using tanks and armored personnel carriers. Although there were reports of sporadic gunfire and isolated incidents of rioting and looting over the course of the next 2 days, most of the city quickly quieted down with the immediate imposition of an around-the-clock curfew, which was lifted gradually and eventually suspended 1 week later.

The riots—Egypt's most serious domestic disturbance since rioting in 1977 over food price increases—resulted in over 100 deaths, several hundred wounded, several thousand arrests (including several hundred civilians), and the serious damage or destruction of several luxury hotels and night clubs and hundreds of private vehicles. Moreover, the direct damage caused by the rioting and the negative impact on tourism will compound the already difficult economic problems Egypt faces. The government has been trying to undertake measures to reform an economy weakened by the drop in oil prices, the decline in remittances from Egyptians working abroad, and lower revenues from tourism after the Achille Lauro and Egyptair hijackings.

We do, however, see some hopeful signs. The Egyptian Government took early and decisive action to quell the rioting; the army performed its duty efficiently and with discipline; the local media reported the riots and the damage promptly and thoroughly; the people of Cairo supported their government by responding orderly to the imposition of the curfew; and all the opposition parties denounced the violence. The Egyptian Government has indicated that it intends to move forward with its program for economic reform and has not allowed the riots to delay or disrupt ongoing talks with Israel on the border dispute at Taba.

In the aftermath of the riots, the Egyptian Government has conducted an investigation into the causes of the disturbances. There is no compelling evidence that they were planned or led by religious fundamentalists or other extremists or that there was any foreign hand in their instigation. The government, under the leadership of a new Minister of Interior, has now moved to reorganize the Central Security Forces and to address those grievances of the conscripts concerning low pay, poor living conditions and problems of morale that undoubtedly set the stage for the rioting.

Secretary SHULTZ. Basically, the problem started with incorrect information, which set off the difficulties, and they were very firmly taken care of by the government. It was interesting that what happened was widely shown on the television in Egypt, and I think to some extent the reaction of the Egyptian population to that helped the government, and supported the government in its efforts to deal decisively with what took place.

I know I owe you, in response to your question, something more thoughtful and detailed and complete, and I would like to do that for the record, if I could.

Senator INOUYE. Mr. Secretary, I have a few more questions on Egypt, but because of their sensitive nature, I would like to submit them also.

Secretary SHULTZ. Thank you.

PHILIPPINE AID PACKAGE

Senator INOUYE. Finally, Mr. Secretary, like most Americans, I was pleased with what you were able to do in the Philippines, in assuring the lowest level of violence and blood shed in the transfer of authority.

After the transfer, many Members of Congress, Senators and Representatives, have been suggesting increased aid to the Philippines. I believe the AID Administrator indicated that there is $800 million available at this time, $400 million from the Asia Development Bank, and $400 million from the United States.

Do we have any Philippine aid package?

Secretary SHULTZ. We have been counseling everybody and trying to maintain the counsel ourselves to avoid sort of offhand comments about the prospect of large aid pending a careful review of the situation and discussion with the new government of the Philippines about what they think.

We also are coordinating carefully with the Japanese whose flow of funds into the Philippines exceeds ours, that is concessional flows, and with the World Bank and the Asia Development Bank. As our assessment is made, and as we see how the new Philippines government wants to move, we will come forward with what we believe should be done. We are not prepared to do that as yet.

Phil Habib was there shortly after the Aquino Government formed itself, and he has given us some indication of where the problems are and what needs to be done. I think we are all quite convinced that the military reforms are going along well. The economic problems are very considerable. The success of the new government will be affected vitally by how well economic development takes place. So we do want to focus on that.

Right now, we have a team in the Philippines consisting of Peter McPherson, as the head of the AID program, a Treasury representative, a DOD representative, and a representative from the State Department, trying to coordinate an approach here, working with the embassy. We expect that they will be back this weekend, or early next week, and then we will assess things, and then we will make our recommendations to you.

So I don't want to jump at something, I would rather go about this carefully, and do what we do as best we can in coordination with others, so that we maximize the effectiveness of it.

PHILIPPINE SUGAR QUOTA

Senator INOUYE. I realize that the so-called package plan is not ready for presentation, but are you prepared to consider the restoration of the sugar quota for the Phillipines?

As you know, in 1981, we cut it in half, and now we have a new government, a new set of players there. Is there any consideration of that?

Secretary SHULTZ. I would like to hope that there would be a chance for congressional reconsideration of the sugar program because it puts us in an impossible posture. The amount of sugar that can be shipped into the United States is decreasing rapidly, and the quotas have to get allocated on a historic formula basis, otherwise, we wind up in violation of our GATT obligations. But the result, under the best of circum-

stances, is a declining amount of sugar being shipped into the United States, including from the Philippines, and it is a crime because there are areas of the Philippines, as you know better than I, that have been dependent for decades on the U.S. market. Basically, we are closing the U.S. market to sugar. I might say, for that matter, we are not doing any particular good, in the long run, in my opinion, to people in this country who produce sugar, because we are pricing it out of the market.

Sugar substitutes are coming on strong, and we have a program here that is misfiring badly, and it is harming us with the Philippines, it is harming us in the Caribbean, and it is harming us in Central America. It is a big problem in my opinion.

Senator INOUYE. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Senator KASTEN. Senator Specter.

ADVANCED ARMS SALES TO SAUDI ARABIA

Senator SPECTER. Thank you very much, Mr. Chairman.

Mr. Secretary, the administration has submitted, for congressional approval, the sale of some $354 million in advanced arms to Saudi Arabia. The administration has not yet delivered the AWACS, which was the subject of the hotly contested 1981 resolution of disapproval. I recall well when the President sought support for the sale of the AWACS to Saudi Arabia in 1981 that he articulated an approach that the sale was based on an interest in getting the Saudis involved in the Mideast peace process. The President said that if the Saudis did not become involved in the Mideast peace process that the plug could be pulled on the delivery of the AWACS.

In the intervening time between 1981, when the matter was acted on by the Congress in October, and delivery, which I understand is now set for October of this year, can you be specific in terms of what the Saudis have done to assist in the Mideast peace process?

Secretary SHULTZ. We will present, when it comes time for formal notification, a full statement on the Saudi arm package. The earlier sale and this one are not linked primarily to the peace process, they are linked to our strategic interest in the Gulf, and what happens in the Gulf. That has always been the prime resting place for it.

I think the ability of Saudi Arabia, with its planes, to assert itself in the Gulf has stood us in good stead, particularly during the tanker war period in which the Saudis successfully challenged and brought down Iranian planes. I think that it sobered the situation up and it served our interests to have that country, in that area, take that action.

As their capacities develop further, I think it will further contribute to stability, just as I think it has been helpful to have strength in Saudi Arabia as we tried to cope with the problems in the Yemens recently.

Insofar as the peace process is concerned, that is a related matter, and it was stated in the President's approach back in 1981. Obviously, we are all disappointed that more has not happened in the peace process.

It is a very difficult and hard problem. There are pluses and minuses to pass around on all counts.

However, my conclusion is, from having struggled with this and having talked with the Saudis a lot about it, and having watched their way of trying to have some impact on key players, they have made an effort to be constructive and contribute to it.

SAUDI INVOLVEMENT IN MIDEAST PEACE PROCESS

Senator SPECTER. Mr. Secretary, I appreciate your statement about our overall interest in the region in terms of the delivery of armament to the Saudis, but I would have to disagree with you, respectfully, about the nature of the involvement of the Saudis in the Mideast peace process, because I heard the President with my own ears, at the White House, with about 40 Republican Senators that he spoke to one morning there, say that if the Saudis did not participate significantly in the peace process—I am paraphrasing his words—that would or could pull the plug on delivery of the sale.

Secretary SHULTZ. Don't misunderstand me. I believe the Saudis have contributed significantly to the peace process. All I was saying is that this is not the only basis on which we have proceeded. We have strategic interests in that area that go beyond our concerns about the peace process, and go to the stability of that region, and its resources.

We have to think about our interests along those lines, as well as our interests in the peace process. That was the burden of my comments.

SAUDI CONTRIBUTION TO PEACE PROCESS

Senator SPECTER. Mr. Secretary, could you give me one illustration of a significant Saudi contribution to the peace process, and if you would prefer to do it, if it is sensitive, not on the record, I would understand that.

Secretary SHULTZ. Mostly what the Saudis do, they do as quietly as they can, that is their way of doing things. I believe that they have tried to exert a positive influence.

Senator SPECTER. Is that as specific as you can be?

Secretary SHULTZ. I can be more specific, but I don't want to violate their own pattern of operation by making public comments about it.

Senator SPECTER. I can appreciate that, and that is why I said, if it is something that you would prefer to discuss not on the record, in public, I would be willing to accept a different procedure for the specification.

I would say to you, Mr. Secretary, that there is a lot of concern in the Senate on this issue, as to what the Saudis have done. You say that it is done quietly. It has been inaudible as far as this Senator is concerned. I would be pleased to pursue it with you outside of the public arena, but I do want to have as much specificity as possible.

Senator LEAHY. The Secretary is going to be before our other committee this afternoon, which will give you a better forum for that.

Secretary SHULTZ. Not that I know of, unless you have a different schedule than I do.

Senator LEAHY. I am sorry, Mr. Secretary, I thought you were.

Secretary SHULTZ. I don't think so. I generally testify before two committees a day, but this happens to be my half-day off.

$100 MILLION REQUEST FOR NICARAGUA

Senator SPECTER. Mr. Secretary, on the subject of the administration's request for $100 million to Nicaragua. This is a subject that we have discussed on your prior visits here, and also more recently on an informal basis.

Are the administration's plans for the use of the $100 million consistent with the congressional stated policy in 1982 that the United States would not seek to overthrow the Sandinista Government?

Secretary SHULTZ. What we seek is a change in that government, and we seek to bring it about, first, by helping the opposition that is in Nicaragua give a kind of account of itself that shows to the Nicaraguan Communists that they cannot win a military victory.

Second, as that becomes visible, or whenever it becomes visible, to convince them that the best road to the future in Nicaragua is to sit down with the united Nicaraguan opposition, both those in the country that are fighting and those who are not in the country, and try to work out with them, through church mediators, processes of national reconciliation, an arrangement by which the people of Nicaragua can decide who they want to have as their government. In other words, to bring them into the stream of what is happening in the rest of their neighborhood and throughout South America, with a few exceptions. So that is what we seek.

Senator SPECTER. That sounds to me as if it is a yes answer, that there isn't a policy to overthrow the Nicaraguan Government. What you are saying is that you do not want the Communists, or to make apparent that the Communists cannot win a military victory.

Are you suggesting by that that you are seeking to have the Contras win a military victory?

Secretary SHULTZ. If I had a rerun here, I would just replay the answer that I gave, and I will make a deal with you, you don't put words in my mouth, and I won't put words in your mouth.

Senator SPECTER. I don't think that you answered the question, Secretary Shultz, and that is why I am following up. I am not putting any words in your mouth. I know what a question is, and I didn't get an answer. I don't appreciate your suggesting that I am putting words in your mouth. I am not trying to do that. If I tried, which I wouldn't, I wouldn't succeed.

I would like an answer to the question as to whether U.S. policy is seeking a military victory for the Contras?

U.S. POLICY TO NICARAGUA

Secretary SHULTZ. Our policy is to seek, through church mediated processes of national reconciliation, a rearrangement of the way of governing Nicaragua, so that the people of Nicaragua will have a chance to select those who they will have governing them.

We don't see any way to do that if the Communists are left free, with large support from the Soviet Union and Cuban military participation, to eliminate the opposition. So we want to support the opposition, and help them to, first, stand their ground; and to make it plain, as I said, that the Communists cannot win a military victory.

Now, whether the Communists will be willing to deal with the opposition or not, I can't say. I don't know the answer to that. But if it is plain that they are unable to prevail militarily, maybe they will. That is our best shot at it.

This is important for the people of Nicaragua, but it is also important for the countries around Nicaragua because there isn't any doubt about the kind of regime that Nicaragua is trying to impose. They are trying to impose, the Communists are, a totalitarian regime in Nicaragua, and the Soviets are trying to establish, in Nicaragua, a base, another Cuba. They are building airfield and ports. Nicaragua is actively engaged in trying to subvert, and supporting those who want to subvert the democratically elected governments in its neighborhood. Nicaragua is providing safe havens to terrorists, and training, and weaponry. Nicaragua is engaged in drug trafficking.

So you have an unholy complexion on things here that we feel deserves to be changed, and we want to see it changed for the sake of the people of Nicaragua, for the sake of its neighborhood, and for the sake of the security interests of the United States.

Senator SPECTER. Well, Mr. Secretary, my time is up, but I want to say this. I don't understand your answer, and I don't understand the administration's policy in Nicaragua. I would like to be supportive of the administration's policy in Nicaragua.

I do not take lightly your statement about my trying to put words in your mouth. The situation, as I understand it, is that the administration is asking the Congress to put $100 million in your pocket.

I would like to be supportive of your policy, but I will not be unless I understand what your policy is, and what it seeks to achieve. I do not believe that we ought to sit back and let the Marxists in Nicaragua expand a Communist base. If there is evidence that Nicaragua is seeking to export Communism into El Salvador, I am prepared to back military aid for El Salvador, and I have voted for.

But I do not understand your answer, and I do not understand the policy. I will read the answer, and I will study.

Secretary SHULTZ. Let me try again because it is very important, I think, for the United States that the President be supported here.

Senator LEAHY. If it is of any help, I may get into this subject when my turn comes, which should come as to great surprise.

Secretary SHULTZ. I am frustrated because it seems to me we have——

Senator SPECTER. So am I, Mr. Secretary.

Secretary SHULTZ. The questions that you have asked are very difficult for me to answer just head on, yes or no, type of questions.

Senator SPECTER. I am not asking for that.

Secretary SHULTZ. The situation is a complicated one. We are trying to work at it in a firm and reasonable way. The President has set out our objectives in Central America, including Nicaragua, many times, including the only speech he has given to a joint session of Congress, other than the State of the Union, on this subject.

It must be that we can't talk straight or something if we can't get it across. But what we seek in Central America is peace and stability, and freedom and democracy, and the rule of law, and the diminution and ending of human rights abuses. We seek economic development in a manner that can be widely shared. All of those goals, which I am sure you share completely, those are our objectives.

Insofar as Nicaragua is concerned, we see Nicaragua, right now, as the principal stumbling block in the path of achieving those objectives because of what it is trying to do, what it is trying to establish, what the Soviet Union is trying to establish there, and what it wants to do with the base. The evidence of its intent is apparent from what it says, and from what it does, so we want to turn that situation around.

That is our objective, and we want to support those Nicaraguans who share that objective, and there are some.

Senator KASTEN. Let me, at this time, recognize the Senator from Vermont.

Senator LEAHY. Thank you, Mr. Chairman.

Mr. Secretary, I was mistaken about your appearance this afternoon, it is another member of the Cabinet who is appearing before our Intelligence Committee.

EFFECT OF BUDGET ON FOREIGN AID REQUEST

Mr. Secretary, you primarily talked about the budget and your foreign aid request, and I thought that we might go into this a little bit.

In this time of belt tightening, when we are faced with major cuts in vital domestic programs, you are asking us to approve not a cut, not even a freeze. You are asking for an 8-percent increase in foreign aid.

Since 1980, according to the Senate Budget Committee, our grant military aid programs have grown by 580 percent. Overall foreign aid has gone up by 113 percent during that same period. Now you are asking for another 8.5 percent on top of that.

Mr. Secretary, to put this into perspective, while you are asking for an 8.5-percent increase in foreign aid this year, we are being asked to cut aid for education in this country by 15 percent. Vocational education in my State is being cut 56 percent.

You are asking for a 33-percent increase in military aid, and the administration is cutting child nutrition programs by $721 million here in the United States.

You are asking for a 23-percent increase in funds for foreign military training, and we are asked to cut 12.5 percent out of the U.S. job programs in this country.

You are calling this a lean budget. If you look at the agriculture budget, it doesn't go up 18.5 percent, it is being cut by 18 percent. If this foreign aid budget is a lean, tight, barebones budget, what would the budget have been if you had not been restrained by Gramm-Rudman?

Secretary SHULTZ. There are many additional things which we could ask for if we had the opportunity.

Senator LEAHY. Maybe we should be happy that there is Gramm-Rudman.

Secretary SHULTZ. But we recognize that there is a very tight budget situation, and the President considered that, and presented you a budget that fits within the confines of Gramm-Rudman, and includes what has been proposed.

I might say that our request overall, for fiscal year 1987, is approximately the same, slightly up, from fiscal year 1986, which you cut back. But we think that where we have wound up, with the fiscal year 1986 adjusted, what we have gone through has squeezed us a great deal. There are important objectives out there to be served, and so we present the budget that we think is right.

Senator LEAHY. But it is up from what you had before.

Secretary SHULTZ. It is up from the actual fiscal year 1986, after all of your appropriations, and then the squeezing down in the first Gramm-Rudman process. But it is approximately the same, up about $300 million, from the fiscal year 1986 request.

Senator LEAHY. Even there, there is a lot of room. The GAO reports, in the AID program, unexpended funds of over $8.8 billion. In Egypt, $2.1, half a billion in Pakistan, $287 million in Indonesia, a quarter of a billion in El Salvador.

Mr. Secretary, you say that it has gone up from what you asked for before, but that is sort of like Hotspur saying, we will call beast from the briny deep, but they never came. It is an increase at a time when a lot of our domestic programs are being cut substantially. It is an increase over what you got last year, is it not?

Secretary SHULTZ. Yes, it is. Of course, it is, that is the record.

ATROCITIES AGAINST CIVILIANS IN NICARAGUA

Senator LEAHY. Senator Specter raised this issue, and let me go into this Nicaraguan issue somewhat. I would say in that regard that every time I have asked you questions about it, you have answered them. I may not have liked the answers, but you have answered them.

An awful lot of my constituents in Vermont travel to Nicaragua. Invariably, they have returned with eyewitness accounts of atrocities by Contra fighters against Nicaraguan civilians. I have a lot of reports here from respected human rights organizations. They cite hundreds of well-documented cases of human rights violations by the same forces the administration wants to support.

I have no doubt that the Sandinistas are trying to use those human rights issues to their own propaganda advantage. I also realize that there

is a war going on. But I do not believe that these stories that I hear from Vermonters, and the stories that I read in some of the human rights organizations' reports, are the reports of Sandinista propaganda.

Mr. Secretary, would you agree with me that we are facing a problem of gross human rights abuses by the Nicaraguan rebels?

Secretary SHULTZ. No, sir; I think there are gross abuses by the Nicaraguan Communists. I think there are examples of disinformation. Undoubtedly there are abuses. On the other hand, the Contras, the United Nicaraguan Opposition, are trying to deal with them. In the President's budget request, $3 million is set aside to help do so, and they have developed a lot of devices, and a lot of attention to this subject as a result of their own instincts because, after all, they are out in the countryside, they depend upon the support of people. They can't draft people, and tax people, and so on, the way the government can do.

They have to work with the people that are there. I think that it is to their interests, and we have made our own point of view very clear on this matter.

Senator LEAHY. I just want to be sure that I understand you. There has been a Contra Human Rights Commission, but I understand they have investigated only 14 or 15 cases of human rights abuses. Yet, we are still getting these reports of hundreds of them.

Are you saying that my constituents from Vermont have been duped by the Sandinistas? Have American Watch, Amnesty International, or these other respected human rights organizations been duped?

Secretary SHULTZ. I would never get in the position of saying that Vermonters have been duped knowing a few Vermonters myself.

Senator LEAHY. We will leave that to Pat Buchanan. [Laughter.]

Secretary SHULTZ. I think that it is possible for a government to take people on guided tours and give them a predesigned impression, that happens.

Senator LEAHY. I understand that.

HUMAN RIGHTS VIOLATIONS

Secretary SHULTZ. What has happened to any particular individual or group, I wouldn't want to say. The reports that we have seen recently suggest that the vast bulk of human rights abuses in Nicaragua are perpetrated by the Nicaraguan Communists.

I don't know into what category things fall, but certainly if suppression of the press, suppression of the church, and things like that constitute human rights abuses, those are very clear and on the surface.

Senator LEAHY. Rape, murder, killing of unarmed civilians would also be human rights violations.

Secretary SHULTZ. Of course.

Senator LEAHY. Would you accept that there have been a very large number of those committed by the Contras?

Secretary SHULTZ. I don't accept that, but I need to look into it, and we all need to look into it, obviously. There is no doubt that almost

everything you have named undoubtedly happened somewhere. On the other hand, this organization is not a group of people out to crucify the people in the countryside because they depend upon them.

Senator LEAHY. And on us.

Secretary SHULTZ. And on us, and our own point of view on this is very clear.

Senator LEAHY. Mr. Secretary, let me make sure that we all understand one thing. I do not think that out of 100 Senators—I cannot speak for the House—you are going to find a single Senator who is going to carry a brief for the Sandinistas, or any kind of a brief for the repression of the church, the press, or anything else. Most of us spoke out very sharply, not only on the floor of the Senate, but often face to face with their people, and in our meetings with Cardinal Bravo and others.

We are being asked for $100 million for the Contras now, and last year, when you were here, you said that you would look into these human rights abuses. We have also asked the Intelligence people to look into this problem. Is it impossible to get an objective accounting of whether there have been Contra atrocities?

Secretary SHULTZ. Certainly, it is not impossible. We can do the best we can on that, and I believe we have. Elliot Abrams can bring that forward for you.

Senator LEAHY. Would you have Mr. Abrams bring forward what we know about Contra atrocities prior to the vote?

Secretary SHULTZ. Sure.

Senator LEAHY. Thank you.

Senator SPECTER. Senator Inouye.

Senator INOUYE. Thank you.

TRANSFER OF AWACS TO SAUDI ARABIA

Mr. Secretary, in 1981, on the eve of the AWACS vote in the U.S. Senate, this committee met to receive testimony from your Department. At that time, the Secretary was not available, so the deputy appeared in his behalf.

A question was asked, and I was the one who asked the question: If the vote should authorize the U.S. Government to transfer AWACS to Saudi Arabia, what do you believe should be or will be the response of the State of Israel?

If you will look at the record, the response was: The State of Israel can buy more F–15's or F–16's. If you recall, at that time, the State of Israel was suggesting that this would put their defenses in jeopardy and, therefore, they might have to buy more equipment.

If we go through this sale of sophisticated weaponry to Saudi Arabia, Mr. Secretary, what should be the response of the State of Israel?

Secretary SHULTZ. Our commitment, our meaning the executive branch, the legislative branch, to Israel and its security, and its qualitative edge, is a very clear one. Speaking for the President and myself, we intend to live by that, stick with that, and I believe we have in every way.

All of the information that I have is that the basic superiority and qualitative edge of Israel remains very much intact.

It is our judgment and view that the weapons being sold to Saudi Arabia are not directed against Israel. They are, from our standpoint, there to help the Saudis do what they think they need to do, which we believe is in our strategic interest, in stabilizing the situation and helping lend continuing stability to the situation in the Gulf. That is the rationale for it. I think that this is where we are aimed.

Insofar as Israel is concerned, I think that its qualitative edge is something that it has to look to, and we have to help them look to it.

Senator INOUYE. It is your belief that this sale should not cause any concern on the part of military planners in Israel?

Secretary SHULTZ. Military planners in Israel, I am sure, always are concerned about arms in the hands of those with whom they are not at peace.

Senator INOUYE. Last year, we added section 513 to the Foreign Assistance Appropriations Act. I would like to read that section.

None of the funds appropriated or otherwise made available pursuant to this Act shall be obligated or expended to finance directly any assistance to any country whose duly elected head of government is deposed by military coup or decree.

In conformity with this section, you determined that a coup in Lesotho did not depose a duly elected head of government, and I agree with you, sir. If I may, I would like to support your determination by including in the record a document that was made available to me by your Department.

APPLICABILITY OF SECTION 513 TO PHILIPPINES

Do you find that section 513 has any applicability to the situation we saw evolving in the Philippines?

Secretary SHULTZ. No, sir; I don't think that the Marcos government was deposed by a military coup. I think what happened in the Philippines was certainly an odd kind of an election, but the government changed as a result, in a curious way, of a clear expression of the will of the people.

Senator INOUYE. So it is your determination that section 513 does not apply in this situation. I am not disagreeing with you.

Secretary SHULTZ. I don't think that it occurred to us. I don't know that we specifically went and reviewed that, but I would think that it would not be applicable.

Senator INOUYE. With some reluctance, I ask this question because I have tried my best to be cooperative with your Department. I believe the record will so indicate.

In the March 5 issue of the Post, Patrick J. Buchanan had an awkward piece which said:

By cutting arm shipments to Nicaragua's freedom fighters, by tying the President's hands with the Boland amendment, the National Democratic Party has now become, with Moscow, full guarantor of Breznev Doctrine in Central America. Whose side are you on? That was Dean Rusk's pointed question. With the vote on Contra aid, the Democratic Party will reveal whether it stands with Ronald Reagan and the resistance, or Daniel Ortega and the Communists.

Mr. Buchanan is the Director for Communications at the White House. Was he speaking in behalf of the President or on behalf of the Secretary of State?

Secretary SHULTZ. I can only state my own point of view, Senator, and my own point of view is that every Member of the Senate and the House is a loyal American. We debate these issues, and people have their differences, and cast their votes and express themselves. When we get through, and we have an outcome, I assume that everybody remains a loyal American.

It is a legitimate part of any debate to try to point out the implications of what is proposed to be done, and what the implications are if it is not done. I believe that the implications of not supporting what the President is trying to do would allow the Nicaraguan Communists to make great strides in consolidating their totalitarian regime in Nicaragua, and would work very much against the interests of the neighborhood and the interests of the United States. That is my opinion. I don't say that anybody who disagrees with me is automatically a Communist, or a supporter of communism. They may have a difference of opinion. But I believe that this is one of the implications of not giving support now, as I believe that we should.

ECONOMIC ASSISTANCE TO ISRAEL

Senator INOUYE. Last year, in the Foreign Assistance Appropriations, in the supplemental, we provided some assistance to Israel. I gather that the disbursement has not been forthcoming, and a partial disbursement was made, but the remainder has been held up. Is there any reason for holding this up?

Secretary SHULTZ. We are trying to have the flow of aid take place in such a way as to be as useful as possible for its major purpose, which was to help Israel get its economy in shape. I personally think that tremendous strides have been made. The situation now as compared to 18 months ago is radically different, and I think that our assistance contributed to that.

In having that assistance flow, we didn't put it forward just quickly, and I had something to do with holding on to it for a while. I think that that probably helped in Israel facing its problems and dealing with them.

The problems are not over, but they are a long way down the road to being over. Right now there is a debate going on about growth, and how to get growth. There is a rather outstanding development in that regard, namely, the emergence of Operation Independence, which I think is an extraordinary and a very special and laudable effort being undertaken by business people.

I think that for it to succeed, there are a lot of growth oriented changes that need to be made. We would kind of like to have this money be useful and helpful in helping Israel find its way to what we think are the most healthy growth policies.

We held a very interesting conference in the State Department recently with American businessmen who do business in Israel, along with the Operation Independence people, and from them got a lot of very practical things, things that Israel does that help to promote growth, things in their regulatory procedures that discourage growth. We have made all of that available to the Government of Israel. It is practical operational things on the part of people who do business there.

We wanted this assistance, and I think that it has been used in a very constructive way, both in the amount and in the manner of administering it, and that continues to be our policy. But, obviously, it needs to be disbursed fairly soon, and we are working at that.

There hasn't been any holding back. It has been a very strong, good faith effort to use the money helpfully. I think if it had all sort of just been dumped on Israel, there might have been a little less incentive than there was in fact to face up to some of the difficult things they have had to do, and they had to do some very hard things on their budget, and in their economy, in relative terms, tougher than what we are facing here, and we know how tough it is.

Senator INOUYE. I asked this question, Mr. Secretary, because, as you are aware, for reasons of our own, we have made Egypt and Israel part of a package. In the case of Egypt, the full amount has been released, and in the case of Israel, it was held back.

In light of the improvements that have been made, as you have indicated, you said that soon it will be released?

Secretary SHULTZ. The Prime Minister is coming here in about 3 weeks, I think, something like that. This all started during a visit of his in October, a year and a half or so ago, with an economic program and a plan, including, as he expressed it, "we are going to have to have austerity, but we also want to have as part of this program some light at the end of the tunnel, some hope. That is what will allow us to have the austerity that we know we need to have."

That is where Operation Independence comes in. That is where the kind of structural changes that we think are necessary come in. We would like to discuss these matters together.

I don't have a definite notion in mind. I think that it is going rather well, the administration of this program, and certainly the changes that have been made, and the improvement in the Israeli economy is about as dramatic as any situation you can look at anywhere in the world.

Senator INOUYE. Thank you very much.

Senator SPECTER. Senator D'Amato.

Senator D'AMATO. Thank you very much, Mr. Chairman.

COMBATING INTERNATIONAL TERRORISM

Mr. Secretary, it is good to see you. Let me, at the outset, commend you, Mr. Secretary, for your strong position as it relates to the issue of terrorism. I have to say that I wish the Defense Department would follow your lead a little more in terms of responding to the threat of terrorism.

I am wondering, though, Mr. Secretary, if it might not be advantageous to raise the level of representation within the State Department, specifically with respect to the Counter-Terrorism and Emergency Planning Office. Are you considering the possiblity of raising it to a Bureau, headed by an Assistant Secretary of State, similar to the Narcotics Bureau that you have. Would that not give it greater visibility, and greater input?

BUREAU FOR SECURITY

Secretary SHULTZ. We have created a Bureau for Security, with an Assistant Secretary, and we are seeking authorization for that, along the lines recommended by the Inman Panel. We have, at the same time, a policy-oriented office which will be reporting, and is reporting, directly to me. Our notion is that that should be headed by an Ambassador at Large, which is a very high standing title in the State Department.

Right now, that post is occupied by Robert Oakley, who has been doing an outstanding job in giving leadership in this area.

I think that that is the pattern of organization, a Bureau that has a lot of important day-to-day work to do in the administration of all of the security problems, and a person, less tied down with the day-to-day administration, so he or she can be more oriented to the policy concerns, and handling crises as they come along.

In general, this seems to be endorsed by the recent report of the Vice President's Task Force on Terrorism.

BUREAU RESPONSIBILITY

Senator D'AMATO. That position, then, is responsible for more than the safety of the embassies and personnel. Its responsibilities go beyond that scope. Is that correct?

Secretary SHULTZ. The Bureau has the responsibility for the embassy program, and for many other aspects of our administering our security program.

The Ambassador at Large is more of a policy oriented position, a position that is occupied right now, and will be occupied always, by a person of high standing who can operate with other governments, interact with them, talk through intelligence matters, and be very much a part of any crisis management as these problems occur in our own government.

TERRORISM AND ILLEGAL DRUG TRAFFICKING

Senator D'AMATO. Mr. Secretary, at subsequent hearings, this subcommittee will be going into some detail on the question of international narcotics control and the link to terrorism. But, given the tremendous amount of moneys involved, I am wondering, in terms of the illicit drug trade, what kind of an effect has it already had, that you have seen it playing in sponsoring terrorism, particularly in countries like Colombia, Libya, and possibly Mexico, in the future? What concerns do you have in that regard?

Secretary SHULTZ. First of all, I think you do see an alliance between drug trafficking and terrorism, and we can spot it explicitly. Of course,

if you were just speculating about it, you could see that it is a rather natural alliance because, on the one hand, you have a great source of money, and on the other hand, you have a ruthless and militant organized international terrorist network. So it is not surprising that they align themselves together.

We see it especially in South America. You mentioned Colombia. Colombia has been particularly a victim. I think that one of the things that is causing other governments to be more and more ready to cooperate with us is that they see the dangers of the drug problem to them in terms of use by their population, on the one hand, and in terms of the establishment within their own country of a virtual government within a government, financed by drug trafficking, and enforced by terrorists. So it is a very unwelcomed development everywhere.

You see Colombia working at it, Peru, Bolivia, and so forth.

SALES OF STINGER MISSILES

Senator D'AMATO. Mr. Secretary, I have some very real concerns about the proposed sale of STINGER ground-to-air missiles to Saudi Arabia, specifically with respect to the necessity to protect Saudi Arabia from Iran. What we are talking about is ground-to-air missiles that can be used only against aircraft.

If we look at the Iranian air force, we see about 60 aircraft capable of flying. It seems that, given the dramatic air superiority the Saudis already have over Iran, these ground-to-air weapons don't fill a need in terms of this particular situation.

I question whether or not the Saudis don't already have sufficient firepower in terms of missiles to defend against any kind of an Iranian air attack, and I question whether they don't already have sufficient fighter capability to more than overwhelm them. I am not talking about ground forces, I am talking about the air power.

Why would we want to go ahead with the sale of those missiles?

Secretary SHULTZ. We want to see to it that they have an adequate stock of ammunition, so to speak. These are not new weapons in their inventory. They are existing in their inventory, and they need an adequate supply.

They can be used against airplanes, and I might point out that they can be used against helicopters. You have a lot of uses for things that might knock down something in the air.

Senator D'AMATO. I just thought that I would express my concern. I know that it troubles a number of my colleagues, as well. We are very mindful of the Iranian situation, which could boil over into the adjoining countries, Kuwait and Saudi Arabia. But, with respect to the missiles, I have some very real doubts.

MILITARY AND ECONOMIC AID TO TURKEY

Mr. Secretary, let me just ask one other question. I noticed that this year there was a request in fiscal year 1987 that includes a $136 million increase in military and economic aid to Turkey over this year's figure.

Given the fact that we have a situation between Turkey and Cyprus, which, at the very least, has been a total stalemate, aren't we really giving the wrong signal to Turkey, in terms of increasing this aid, if we seek to really resolve this dispute?

I realize the State Department's strong opposition to cuts, but certainly, it seems to me that we reward them when we go forward with this kind of increase, and we are sending the wrong signal. It is almost saying that we don't really care if you let that situation in Cyprus continue.

Secretary SHULTZ. We would very much like to see the Cyprus issue resolved. It is a longstanding and difficult issue. We talk to the Turks about it constantly, and I believe that the Turks, in recent times, have exerted a constructive influence, although it remains, obviously, a situation that is unresolved.

The purpose of our assistance to Turkey is to help them modernize their military capability as a key and strategic country in the NATO Alliance. Our request is, basically, similar to our request last year which was reduced, and this gets back to the same problem that we were discussing earlier, but nevertheless represents our estimate of what is important to do in helping the Turks to modernize their armed forces, given their strategic NATO role.

Senator D'AMATO. Thank you, Mr. Chairman.

Senator SPECTER. Thank you, Senator D'Amato.

SANCTIONS AGAINST LIBYA

Mr. Secretary, after the United States imposed the economic sanctions on Libya, I know that there was some disappointment that other of our allies did not support us. Prime Minister Thatcher made the curious statement that the economic sanctions could not be effective unless they had general support, and then she declined to support those sanctions, and others of our NATO allies were not forthcoming in backing the U.S. policy on economic sanctions against Libya.

Given the very heavy deficit problems, and the difficulty of finding enough moneys for all the priorities, and the factor that terrorism is a problem, which is really at the core of our defense in NATO, and Western Europe, would you be willing to consider putting a little pressure on our NATO allies to do a little more in joining with us in fighting terrorism by applying economic sanctions to Libya, with the suggestion that we might cut back somewhat on our financial support of NATO?

Secretary SHULTZ. I think that we should continue to work with our allies in combating terrorism, and in particular on their contacts and operations with Libya. I wouldn't want to do that through fussing around with our NATO obligations. I think that this is a connection that we shouldn't make.

On the other hand, our NATO installations themselves are attacked by terrorists, and the general subject of terrorism has become a subject of conversation within NATO, necessarily and properly. So we will work at it in that way.

The work with our allies on Libya has not been fulfilling, but it has not been fruitless either. We have seen some shift. Deputy Secretary Whitehead went all through the region, and in some cases was basically rebuffed, but in others got quite a response. I might say, perhaps the most interesting response and most forthcoming has been from Italy, where Prime Minister Craxi has been quite forthright. I think we take this as especially significant since the Italians have the largest relationship and most traditional relationship with Libya of any country.

LEGISLATION AFFECTING TERRORIST ATTACKS AGAINST AMERICANS

Senator SPECTER. Mr. Secretary, the Senate, last month, on February 19, passed legislation which I had introduced which makes it a violation of the laws of the United States to attack, maim, murder a U.S. citizen anywhere in the world. That legislation was aimed at filling the gap where there was no violation of U.S. law, for example, on the murders of U.S. citizens in the Vienna and Rome Airports. It is consistent with efforts made in 1984 legislation on the Omnibus Crime Control Act, which made it a violation of U.S. law to take hostages, or to hijack U.S. airplanes.

This is a part of an overall effort on our extraterritorial jurisdiction which is well founded in international law to look toward the day when we can bring terrorists to the United States for trial on the proposition that they have violated our laws even though the specific acts occurred outside of the United States.

Judge Sofeer—I compliment you for the addition of Judge Sofeer to the State Department—testified at hearings before the Judiciary Committee, the Subcommittee on Terrorism, concerning this proposition, of the effort to gain custody of terrorists by use of rewards for, by taking them into custody even it amounts to abduction. We have discussed on the record a case of the Supreme Court of the United States, going back to 1886, where a man named Kerr was under criminal charges in Illinois. He fled to Peru, and he was in effect kidnapped and brought back to Illinois to stand trial, and he was convicted. That conviction was upheld by the Supreme Court of the United States. It has since been upheld in many decisions, one by a noted civil libertarian, Justice Hugo Black.

The Commission headed by the Vice President has called, I think he used this term, "a surgical strike."

My question to you is, Would you support an approach which would seek to take a terrorist into custody after warrants of arrest have been issued based on statements of probable cause, as indictments are now pending against the three hijackers of the TWA plane?

Would you sanction the use of some moderate force to take terrorists into custody in remote parts of the world to bring them back to the United States for trial?

Secretary SHULTZ. Yes, sir.

Senator SPECTER. Excellent.

Senator LEAHY. I understood that answer. I wrote it down verbatim.

Secretary SHULTZ. Let me add, without taking away any clarity.

Senator SPECTER. I certainly didn't put that word in your mouth.

Secretary SHULTZ. I would like to say this. I think, in our work on the terrorist problem, of course, it is a problem characterized by violence, that the effort to think it through from the standpoint of the rule of law is a very important thing for us. We have been making headway on that, and I would like to take the occasion to pay a compliment to you because you have been very much in the leadership of pointing this up for us.

So I think that we certainly should have legislation on our books that makes it a crime, as you suggest, and puts us in the position to try to enforce that law. I think our extradition arrangements need to be examined in this regard, and we do have our British Treaty before you for changes in that.

We need to be working on the web of law that can operate here, and in conjunction with others around the world to say to terrorists that they have no place to hide, and they are going to get prosecuted.

APPREHENSION OF INTERNATIONAL TERRORISTS

Senator SPECTER. I appreciate your good words on that, Mr. Secretary. It is a principled approach in that it follows accepted doctrines of legal proofs where probable cause is contained in documents placed before a judge, warrants of arrest are issued, and indictments are obtained. The tough part is to take these terrorists into custody.

As the Vice President's Commission has suggested, a surgical strike could bring those terrorists into custody. It may pose some problems as to the difficulty or potentiality of escalation, but warrants of arrest are effectuated day in and day out, with use of force, and reasonable force is a well-accepted doctrine in law enforcement.

So I am delighted to see the progress that we are making and I, for one, look forward to the day when we will try a terrorist in the courts of the United States.

AID TO GREECE AND TURKEY

Mr. Secretary, in the brief remaining time that I have, I would like to followup on a question by Senator D'Amato on the relationship between our aid to Greece and Turkey, between 1986 and 1987.

I notice that the Greek aid has gone from $431 million to $501 million, and our aid to Turkey has gone from $738 million to $975 million. I have a two-part question on that.

What is the thinking of the State Department in requesting that kind of an increase in aid at a time when we have budget constraints on so many of our domestic programs, and why the differential there, considering the problems that Senator D'Amato has raised with you about resolving the Cyrpus issue?

Mr. Secretary, if I have taken you unaware, these are specifics, if you would prefer to submit them for the record, I would certainly understand that.

Secretary SHULTZ. I probably would be well-advised to amplify anything that I say, for the record.

Let me just say that, once again, with respect to Turkey, while our request is up from where we wound up in the fiscal 1986 budget, it is only slightly up, basically unchanged, from what we requested in 1986. It reflects our desire to see the Turks modernize their armed forces as they have a strategic role and posture in the NATO Alliance. That is basically what is behind these numbers.

Senator SPECTER. Thank you very much, Mr. Secretary.

Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman.

HUMAN RIGHTS ISSUE IN NICARAGUA

Mr. Secretary, again I appreciate your answer to my last question about getting a report by Secretary Abrams prior to the Contra vote. I would just point out that there have been two reports from the administration on the human rights issue in Nicaragua.

The first one, last year, indicated that there was evidence of considerable abuse by the Contra. The second report, dated February 24 of this year, contains really little useful information. It talks about this commission that is going to be set up. It describes the political commitment to Contra leaders, and so on.

I would point out, in the one that was done for the Intelligence Committee, in the unclassified part that was made public, the Deputy Director of the CIA said that it was the first real effort to look into this issue. The first real request from the Congress to do it, and that matter was made available, both in the unclassified and classified form, to Members of the Congress.

Irrespective of how somebody is going to vote on this issue, this is always going to be a question in the mind of the American people. I would strongly urge that the report be as factual as possible, realizing that some of these things are impossible to totally prove or disprove, but do it as factually as possible. There will be enough debate on whether we should or should not send the money down.

Let me ask one more question while we are talking about the amount of money in this budget.

UNEXPENDED MILITARY AID FUNDS

GAO reports that the current military aid pipeline of obligated, but unexpended funds, is almost $8 billion. Am I correct that the backlog in Greece is almost $1 billion?

Secretary SHULTZ. I am going to ask Under Secretary Schneider, who is very close to all of these matters, to comment on what the amounts are, and how they are to be understood.

Mr. SCHNEIDER. Senator, with respect to Greece, the figure is actually over $1 billion in unobligated funds now. The matter relates to the fact that they are about to purchase F–16's, and the size of the order requires that the funds be backed up until they are disbursed.

Senator LEAHY. It is a $1 billion order?

Mr. SCHNEIDER. It depends on how many they ultimately decide to buy. In addition to F–16's, which is currently pending, they have other requests that they are interested in. They haven't specified for certain ultimately how big the size of the buy is.

The phenomenon of unobligated balances in the FMS account relates to the fact of the way the account is managed. When funds are appropriated, it is put into a trust fund, and the trust fund is drawn down as progress payments to the manufacturer of the equipment.

Senator LEAHY. Does that trust fund draw interest?

Mr. SCHNEIDER. No; I don't believe it does.

Senator LEAHY. Shouldn't we be getting something back, if we could draw interest on that?

Mr. SCHNEIDER. No; because the funds are not actually created. The obligational authority is provided in the trust fund for a draw down, but the funds are not actually created until a requirement is established for the funds to be paid out.

Senator LEAHY. We have over $1 billion in the pipeline for Greece, about a half a billion for Turkey, a third of a billion for Egypt. Are those figures in the ballpark?

Mr. SCHNEIDER. Yes; they all relate to equipment that is currently under order, and the funds will be drawn down as the progress payments are provided for the manufacture of the equipment.

AID PIPELINE

Senator LEAHY. There is about $8 billion in there, and almost $9 billion in AID. Is that correct?

Mr. MORRIS. Our number for DA and ESF is $7.2 billion, as of December 31, 1985.

Senator LEAHY. GAO says $8.8 billion, are they off the mark?

Mr. MORRIS. According to our records, there is a disagreement.

Secretary SHULTZ. It would depend on the time lag.

Mr. MORRIS. Yes.

Senator LEAHY. What is your time?

Egypt, is it still $2.16 billion?

Mr. MORRIS. Yes, sir; that is down from $2.7 billion, and we expect it to be $1.9 billion this year.

Senator LEAHY. The GAO report says $2.1 billion.

Mr. MORRIS. Yes, sir; we concur in that case.

Senator LEAHY. The backlog in Pakistan, they say, is $4.96 billion.

Mr. MORRIS. I think the figure is $467 million.

Senator LEAHY. Indonesia, $287 million.

Mr. MORRIS. No; it is $251 million.

Senator LEAHY. El Salvador, is it still a quarter of a billion?

Mr. MORRIS. Yes; close, $206 million.

Secretary SHULTZ. I think you had better explain that this is not money sitting there with nothing connected to it.

Mr. MORRIS. No.

Senator LEAHY. That is why I was pausing, Mr. Secretary, I wanted to be perfectly clear here.

Mr. MORRIS. I appreciate that, sir, but I was waiting to see if you had any other questions.

Secretary SHULTZ. Go ahead and explain.

Mr. MORRIS. Yes, sir.

Senator LEAHY. The Secretary knows I will always have further questions, so you don't have to wait for that.

Mr. MORRIS. Yes, sir; he is far more experienced than I am, and I appreciate that.

AID PIPELINE

The pipeline, sir, is just one measure of our project activities. We are working very hard, of course, to keep that to a bare minimum, but in some cases, due to policy dialog, et cetera, the funds are deliberately held in escrow until satisfactory arrangements are made.

In other cases, it is the very nature of the program that requires that there be a pipeline. In the case of the commodity import program, for example, during its establishment in the first year, it draws down very few funds. The average commodity import program takes roughly 4 years to fully expend funds.

So there are a variety of reasons why there are pipelines, and they do not necessarily indicate bad management or lack of expeditious implementation.

ADDITIONAL FOREIGN AID NEEDS

Senator LEAHY. Is there a wish list that is available to this committee of what would be requested in the foreign aid bill if you were not restricted by Gramm-Rudman?

Secretary SHULTZ. We will be glad to talk about things that we think might be done in addition to what is being proposed here. In our budget process within the Department, various bureaus put in their requests, and then Bill Schneider and Peter McPherson carve them down, and then the OMB carves them down, and so on. We go through that kind of a process. Then you take another lick out of us.

Senator Leahy, Could you give me an example of something that got cut back from what you had originally wanted?

Secretary SHULTZ. I don't know. We have to be a little careful with the President's prerogatives here, and the integrity of our process.

Mr. SCHNEIDER. Senator, we gave budget guidance at the beginning of the budget season because of the agreements that had been made during the course of the budget deliberations in the Congress. The budget guidance that we gave out was consistent with that.

The indications that there were substantially more requirements came in a rather anecdotal way from the field, where we were obliged to say that there was simply no more that could be provided than what was suggested in the original budget guidelines.

Senator LEAHY. Would you say, Mr. Schneider, that you don't have a specific example that you want to give me.

Mr. SCHNEIDER. During the course of the budget process within the Government, there were further reductions, and there were substantial reductions in every bureau and the security assistance account, for example. There were some examples in AID.

Senator LEAHY. Give me one example.

Mr. SCHNEIDER. Turkey.

Senator LEAHY. From what to what?

Mr. SCHNEIDER. I will get you the precise figure, but it was well over $1 billion.

Senator LEAHY. Thank you.

I think, at the beginning of this meeting, before you came, Mr. Chairman, the Secretary mentioned that he has a real crunch downtown.

Senator D'AMATO. We are going to conclude because we have about 2 minutes left on the vote, and I think Senator Inouye has a quick question before we recess.

OVERSEAS SECURITY FUNDING

Senator Inouye. Mr. Secretary, I am just taking this opportunity. I realize that the question that I am about to ask should be asked in the State-Justice-Commerce Subcommittee.

You have requested $4.4 billion over 5 years for the security of State Department personnel overseas.

Secretary SHULTZ. Yes, sir.

Senator INOUYE. I notice, from your document, that much of that money is going to be used for technical improvement, embassy beefing up, residence protection, but very little for dependents.

I sense that terrorist just don't strike adults. Why aren't we providing greater security for dependents in schools?

Secretary SHULTZ. That is, of course, a major concern. The problems of security are treated comprehensively. Of course, the children go to school in a host country, often in the schools of the country itself, and we have to depend on that country to provide security.

In other ways, we try to do it, and the budget request treats physical security of the embassies, and of other buildings that we occupy, including residences. It treats communications and security as communications. It provides for beefing up of personnel to administer this program, which would include the problem of dependents.

We also need to be looking at the volume of people overseas, and I am trying to do that, and do that very carefully. Roughly 70 percent of the people in our missions overseas are not State Department people, and they are assigned by other agencies pretty much at the discretion of the other agencies, and it has grown quite a lot.

We are trying to administer the security system, and we feel that we have to get some control over those numbers, so that we size these physical structures well, and so that we think about the dependents and our ability to administer an overall security system in a competent way.

Senator INOUYE. Thank you, sir.

SUBMITTED QUESTIONS

Senator D'AMATO. Mr. Secretary, we thank you for being with us today. The subcommittee members will have some additional questions in writing. We would ask if you could possibly respond within the next 2 weeks.

We look forward to working in a bipartisan manner in a difficult area, providing the best possible foreign assistance bill under the constraints that we have.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

ISRAEL

Senator Kasten: Mr. Secretary, some time back I wrote you a note suggesting that, in view of the steps that the Government of Israel is taking on its economic situation, that it might be a good step to speed up the disbursement of the supplemental funding that we provided last year.

I did not receive an answer from you, but one of your aides responded, basically saying no.

I understand that you still have not disbursed any of that funding, and I wonder why?

Secretary Shultz: In our response to your January 22 letter, we indicated that we had not yet reached the stage where we were prepared to make a decision on further disbursement of supplemental aid, but would time our disbursements to be of maximum support to ongoing GOI stabilization efforts. The situation has not changed materially since then.

The GOI has made impressive progress since last July in its fight against inflation, but its economic program remains fragile and there are still critical policy decisions to be taken on stabilization and growth issues which will determine the long-term success of the Israeli program.

We continue to discuss the policy and assistance questions with Israeli officials on a regular basis -- most recently during the Prime Minister's visit. We agree with the Prime Minister that we would have a further dialogue on these issues and we will make a decision on the basis of this.

ISRAEL

Senator Kasten: Due to sequestration, all countries had to take some cuts to their foreign assistance programs in fiscal year 1986 -- Israel included.

How will this $179 million cut affect Israel's security?

Secretary Shultz: We do not believe the $129 million in Gramm-Rudman mandated cuts in our security assistance program for Israel for FY 86 will jeopardize Israel's security. The GOI has gone to great strides to accommodate our fiscal realities and has succeeded so far in minimizing the adverse impact of cutbacks on its military preparedness. The Israeli economic situation has also improved with the help of our supplemental assistance in FY 85 and FY 86 totaling a $1.5 billion.

SAUDI ARMS SALES

Senator Kasten: I would like to talk to you for a minute about the Saudi Arms sale that was sent to Congress on Tuesday.

You reiterated in your statement that the "U.S. has been engaged with Israel and Jordan, with support from Egypt, in efforts to bring about direct negotiations between Israel and its Arab neighbors."

Haven't the Saudis threatened to impose economic sanctions against Jordan if King Hussein enters direct negotiations with Israel?

Secretary Shultz: We are not aware of any Saudi threat to impose economic sanctions against Jordan. When King Hussein decided to renew diplomatic relations with Egypt, Saudi Arabia continued to provide substantial ($630 million in 1984) financial assistance to Jordan. When King Hussein began his efforts to engage the PLO in discussions on a framework for joint participation in the peace process, Saudi Arabia continued its assistance. In each instance, continued Saudi economic aid was interpreted as implicit endorsement of King Hussein's action.

Senator Kasten: When King Fahd was visiting Washington last year, he told Arab Ambassadors in Washington that "armed struggle against Israel is still an existing necessity". The Department of State's briefing papers state that "This sale will not threaten Israel's qualitative military edge nor change the balance of power in the Middle East. Moreover, it serves neither our interests nor Israel's for us to refuse such sales and allow others to replace us as the principal supplier of arms to the Arab Gulf states". I am not at all certain Israel would agree with that statement considering past Saudi statements.

Secretary Shultz: As you mentioned, this Administration remains committed to maintaining Israel's security and qualitative military edge. While I cannot speak for Israel, it is my understanding that the Israeli government has taken a rather benign attitude toward this sale. Furthermore, I believe you will find that Israeli government and private studies have concluded that this sale will not, in fact, change the balance of power in the Middle East. On April 9, two Israeli newspapers, Ha'aretz and Davar carried reports, citing Israeli intelligence, that indicated the sale did not pose a threat to Israel.

IRAN-IRAQ WAR

Senator Kasten: Mr. Secretary, Iran appears to be gaining the upper hand in the Iran/Iraq war. What is your latest assessment of the situation?

Secretary Shultz: There have been some disturbing developments in the Iran-Iraq war, particularly since the beginning of the most recent Iranian offensive February 9. As

a result of a series of probes along the southern part of the Iran-Iraq border, Iran has been able to establish a bridgehead within Iraqi territory at the al-Fao peninsula. This peninsula is located in the southernmost part of Iraq and is very near, approximately ten kilometers away from, the territory of Kuwait. In spite of this success, we do not believe that Iraq is in danger of defeat.

The U.S., as you know, has been concerned about the prospects of the spread of the war to the neutral states of the Gulf. After Iran's initial successes in February, senior Iranian leaders levelled a series of warnings and threats to the Kuwaiti and Saudi governments regarding their continuing financial and logistical support for Iraq's war efforts. The combination of Iranian advances on the ground and those warnings has raised the level of anxiety of the states in the region, with several of which we have close security and economic ties. We have publicly stated that a spread of the war to neutral states would be a major threat to U.S. interests. The Vice President's trip to the region was intended to demonstrate U.S. concern and commitment.

In that context we have joined with other states, in the U.N. Security Council, to call for an immediate ceasefire and a withdrawal of troops to the international borders. The Iraqis have been ready for some time to negotiate an end to the war. The Iranians, on the other hand, have shown no willingness to do so.

JORDAN'S FY 87 FMS LEVEL

Senator Kasten: Secretary Schultz: The administration is requesting a greatly expanded F.M.S. program for Jordan in FY 1987 -- an increase of $33,655,000 over FY 1986.

What has changed in the Middle East, and Jordan's needs specifically, to warrant such a large increase in these days of budget-cutting?

Secretary Shultz: We requested $115 million for FY 87, $20 million over the FY 86 request level of $95 million, that is about a 21% increase. The FY 87 request matches the level Jordan received in FY 84. The FY 86 allocation of $85 million was reduced 4.3% by Gramm Rudman provisions leaving $81,345,000. The difference between that number and $115 million is the $33, 655,000 to which you referred. Basically, though, we are talking about a $20 million increase over our previous year's request, and an effort to return to the FY 84 level.

Jordan has a legitimate need for defensive equipment to deal with threats to its territory and stability. The requested level of security assistance would be consistant with the modest U.S. arms supply relationship with Jordan. That relationship, which goes back over 30 years, has considerable utility and is very much in the interests of the United States. Jordan will be a key player in future moves in the peace process -- if it can maintain its military strength.

This request is based on a careful assessment of Jordan's needs. Since the Congress has so far blocked our proposal for a larger arms package, Jordan intends to acquire needed weapons from other sources. Nevertheless, Jordan still needs our help to maintain and upgrade its existing U.S. supplied arms.

The requested FMS level will permit progress payments on previously ordered equipment, some upgrade of existing equipment, purchase of munitions for existing weapons and a modest increase in war reserve stocks. At the requested level of assistance, Jordan can not afford to purchase any new major end items and can only maintain existing capability levels. Without the increase Jordan's Armed Forces will fall further and further behind Syria, eventually losing any capability to withstand radical pressure. That is not in our interest and I urge you to support the requested increase for Jordan.

LIBYA

Senator Kasten: Secretary Shultz, at a recent meeting of the Islamic Conference, two separate resolutions were passed proclaiming the members of that conference's solidarity with Muamar Qaddafi and condemnation of the United States.

Members of that Conference receive on a yearly basis in excess of $4 billion dollars in U.S. foreign assistance.

If these governments are going to go out of their way to proclaim solidarity with Muamar Qaddafi and condemnation of the United States, why should we provide them any foriegn assistance?

Secretary Shultz: We are fully aware of Islamic Conference resolutions critical of U.S. actions against Libya. However, these particular statements passed without opportunity for debate and carried no real force. The Conference members are predisposed to support publicly their fellow members when confronted by non-Islamic countries. More positively the Islamic Conference called for the withdrawal of all foreign forces from Afghanistan.

Senator Kasten: Mr. Secretary, as a follow-up I note that many of those countries who are members of the Islamic Conference have been close friends of the U.S., including countries like Egypt, Tunisia, and Morocco. The interesting thing from this Subcommittee's point of view is that several countries that were at the Islamic Conference have made appeals to this Subcommittee for more aid based on Qaddafi's threat to them.

Therefore, it is doubly puzzling to see them proclaim their solidarity with Qaddafi, knowing at the same time that they are seeking more aid from us in order to protect themselves from him.

Secretary Shultz: We have noted this inconsistency between public statements coming from members of this group versus private concerns which they may express to your

Subcommittee, and have drawn to the attention of some of our friends in the group to it. However, we must also recognize that the tendency to maintain formal, public solidarity within non-aligned groups despite internal disagreements sometimes reflects the lack of political and military self-confidence to pursue independent policies. Membership implies a strong desire to maintain the appearance of consensus, in the legislative politics of these organizations, especially on issues involving any member's national security interests. That said, we do not agree with the recent resolution and will continue to make our views known.

DISTRIBUTION OF U.S. FOREIGN ASSISTANCE

Senator Kasten: Jeane Kirkpatrick had a very interesting article in the February 17th "Washington Post" in which she basically suggests that the U.S. aid program has, in some sense, become disconnected from realistic calculations of American foreign policy interests.

In layman's language, she suggests that we seem to be giving aid to many countries merely because they are there; and that perhaps, especially in these days of diminishing resources we ought to look at the predisposition of the State Department to try to provide foreign aid to everybody, and instead pick out those that are truly of national interest.

I am sure you have seen this article -- what are your reactions to her suggestions?

Secretary Shultz: Let me assure you, Mr. Chairman, that the Department of State has a system by which we determine the distribution of the foreign assistance funds allocated by the Congress. I can personally attest to the fact that there was rigorous discussion within the Department on how best to divide up our limited resources in FY 1986.

You question whether we give sufficient priority to those aid recipients of greatest importance to the U.S. national interest. Well, Senator, we do. Ms. Kirkpatrick may not agree with them, but this Administration does in fact set priorities, and resources are most definitely allocated accordingly.

First priority is given to promoting peace in the Middle East. Thus, Israel, Egypt and Jordan received a total of $5.2 billion in U.S. assistance in FY 1986. Next priority is given to meeting our "best efforts" pledges to countries with which we have base rights agreements. In FY 1986 the second largest amount of aid, just under $2 billion, went to base rights countries. Another important group of nations which received the third largest amount of assistance ($1.4 billion) are states with which we have military access agreeements, or which are on the front lines of agression. One of our highest priorities continues to be to support the emerging democracies of Central America and to promote economic development in the Caribbean. More than $1.3 billion in U.S. assistance was designated to this end in FY 1986.

Finally, we come to the large group of other nations which receive U.S. aid. This includes some extremely important, strategically located friends of the U.S., which receive sizeable amounts of aid. I would mention Indonesia, an ASEAN state which lies astride important sea lanes in the Central Pacific; India, the world's largest democracy; and Bangladesh, among the world's poorest nations, as examples.

Another group, large in number but small in amount of aid received, is made up of countries which receive assistance only under the International Military Training and Education program. The sums involved here are miniscule, usually a few thousand dollars per country.

Thus, we are left with a number of friendly countries spread throughout the developing world. Our assistance to these countries is modest, but it is of great relative importance, since most of them are quite poor.

In FY 1986 our appropriated levels were well below what we had hoped for, and we had to go through a long and painful process to determine how best to allocate these funds. I can assure you that we will go through the same process once again when we receive our FY 1987 allocation, giving first priority to those countries which we deem to be of greatest importance to us.

UNRWA

Senator Kasten: Secretary Shultz, the United States has been the primary donor to the United Nations Relief and Works Agency (UNRWA) since its inception 36 years ago. By its very nature, UNRWA perpetuates the refugee status of Palestinians. We now have the third generation of Palestinians growing up in these camps.

Isn't it time to try something else? The plight of the Palestinian refugees is desperate, and foments unrest. The Administration is requesting $67 million for UNRWA in fiscal year 1987. Why not withdraw U.S. participation in UNRWA and try using this $67 million for another United Nations Agency such as the United Nations Development Program? And use these funds for permanent housing and job training for the Palestinian people?

UNRWA has not resettled these refugees; and I do not believe it is UNRWA's intent ever to do so. Don't these people deserve a chance at a normal life?

Secretary Shultz: UNRWA is mandated by the United Nations General Assembly to provide education, vocational training, health care and relief services to Palestinian refugees. UNRWA is not mandated to resolve the political question of Palestine nor to resettle the refugees. The Agency therefore cannot be held responsible for the political events which have perpetuated the refugee status of the Palestinians. That there is now a third generation of Palestinian refugees is a result of historical events, not the responsibility of UNRWA.

Rather than contributing to unrest among the Palestinians, as the question suggests, UNRWA provides some measure of stability in their lives. UNRWA programs of education and vocational training have enabled most of the Palestinian refugees to become economically self-sufficient. UNRWA's primary and preventive health care programs have significantly reduced infant mortality and disease among the refugees, thus contributing to their well being.

The suggestion that the U.S. withdraw its participation from UNRWA and look to the U.N. Development Program to assist the Palestinian refugees is not realistic, either in political or practical terms. The UNDP is not charged by the General Assembly or constituted to address the needs of this refugee group, which are not developmental in nature.

Until such time as a political solution has been found to the Palestinian question, we believe that UNRWA programs best serve the needs of the refugees and that our support of the Agency serves U.S. humanitarian and political interests in the region for a just and lasting peace.

EL SALVADOR: PRESIDENT DUARTE

Senator Kasten: Secretary Shultz, over the last six months there have been newspaper reports about President Duarte's dwindling popularity with the people of El Salvador, tension between his administration and the El Salvadoran military, and a step-up of guerrilla activity in urban areas. Is President Duarte losing his mandate? Are military leaders in El Salvador discontent with President Duart's rule?

Secretary Shultz: President Duarte's constitutional authority and real political strength as chief executive continue to be strong. Over the past several months, he has had to make some difficult decisions in spite of resistance from subsectors in El Salvador. In the economic field he has implemented an ambitious adjustment plan which included a devaluation and increased prices on a number of goods. On the political side, he has sanctioned an exploratory meeting in Lima with representatives of the FDR insurgent political front. On the military side, he successfully negotiated the release of his kidnapped daughter and the return of 23 kidnapped municipal officials while still maintaining discipline in the military, as evidenced, for example, by their continued adherence to his rules of engagement for air warfare. Most recently, he has presided over the arrest of a kidnapping-for-ransom ring suspected of involvement in far right political violence. In short, although the sensitive nature of these decisions was bound to cause controversy and grumbling among those who disagreed, President Duarte has made them stick without serious difficulty; this is an indication, not of weakness but of the institutional strength of the Salvadoran democracy.

EL SALVADOR: INSURGENT ACTIVITY

Senator Kasten: Can you give us an update on the guerrilla activity in El Salvador?

Secretary Shultz: Four months of large-scale sweeps by the military have kept insurgent forces off balance, greatly reducing the chance they will launch major operations during the coming rainy season. Although recent army operations do not appear to be inflicting heavy casualties, they: (1) have prevented the rebels from staging major attacks, (2) have recovered large amounts of guerrilla materiel and supplies, (3) have disrupted guerrilla command and control (especially north of San Salvador), and (4) are probably causing some desertions.

The rainy season will give the rebels the cover to move to new base camps and may also reduce government mobility in mountainous terrain, leaving army units such as those in Morazon more vulnerable to attack. However, inclement weather also hinders rebel resupply and encourages further desertions.

The insurgents have lost the battlefield initiative and, in response, have intensified attacks on "soft" targets through small unit tactics, economic sabotage, and terrorism. For instance, they are now in their fourth transportation stoppage of the year.

The number of guerrillas dropped from a high of 9-12,000 in 1982-83 to an estimated 5,000-7,000 by late December 1985. The decline has forced the insurgents to consolidate or dissolve some units as well as to disperse their dwindling ranks into the countryside, adversely affecting their command and control. Estimated guerrilla casualties remained at the same level as in 1984.

EMPHASIS ON CENTRAL AMERICA

Senator Kasten: Mr. Secretary, notwithstanding the controversy with respect to funding for the resistance in Nicaragua, the Administration's Central American policy has obviously paid off. We look at Central America now, and see four countries which have taken democratic roots and never before have there been even three.

Notwithstanding this progress, and notwithstanding the fact that there seems to be a consensus of both Republicans and Democrats, liberals and conservatives, that the economic assistance we are providing is necessary and supportable, the Administration is not giving the program the emphasis many of us believe it should.

You will recall that I and others intervened in the allocation process when it looked like Central America was going to be hit harder in that process than other areas.

The Jackson Plan is largely working, yet many in the Administration seem to be placing that plan on the back burner,

notwithstanding President Reagan's very strong and continuing support. How do we light a fire under State and A.I.D. to make sure that they continue the fervor necessary to insure continued and greater success in that program.

Secretary Shultz: I share your view that substantial progress is taking place in Central America, and agree that we need to continue our efforts to assure adequate funding for implementation of the Jackson Plan. Nevertheless, I must dispute your characterization that Central America is on the back burner. The region continues to be one of our highest foreign policy priorities, and I can assure you that State and A.I.D. staffs are totally dedicated to completing the important work we have begun.

Regarding the adequacy of funding for the region, I can only respond that sharp cuts in overall assistance levels, in a situation where substantial amounts are earmarked by Congress for areas outside Central America, have forced us to make difficult and unpleasant choices.

U.S. BASES IN GREECE

Senator Kasten: Our agreement with Greece to locate our military bases in that country runs out in 1988. From all the rhetoric, it appears that Greece does not intend to renew those base agreements.

Where do we stand on our contingency plans to relocate those bases?

Secretary Schultz: During my recent visit to Greece, I had good discussions with the Greeks on the future of U.S. military facilities in Greece. Although we did not come to a conclusion, we agreed to pursue serious discussions in a timely fashion to permit an orderly resolution of the issue.

We continue to believe that the bases serve the interests of both countries and the NATO Alliance. We hope the bases will remain in Greece. Nevertheless, in view of past statements by the Greek Government that the bases are to be removed, we believe that it is prudent for us to have contingency plans. We are confident that our contingency planning is responsive to our requirements.

AFGHANISTAN

Senator Kasten: Can you give the Subcommittee more detail on the proposed Afghan Humanitarian Assistance request in FY 1987 -- and how the funds are being spent in FY 1986? The Congressional Presentation Document indicates a very ambitious program of health, education, and agriculture assistance, including training in health skills and training of teachers.

Secretary Shultz: In developing our Afghan cross-border humanitarian assistance program, we are guided by our estimate

of the urgent needs of the Afghans who remain inside their country. In addition, the program recognizes the importance of respecting both Pakistani and Afghan sensitivities and of the desirability of working through the Afghan Resistance Alliance. To date, design teams have completed the initial phase of long-term health and education schemes; we expect that an agricultural design group will go to the field shortly. And, we will soon begin implementing many of our assistance concepts through U.S. and European private voluntary organizations.

In the health field, our program will provide medical care to Afghans by Afghans in as many areas of the country as possible. While we must obviously deal with the problem of war injuries, the health program is also intended to meet normal medical requirements -- preventive services, basic health treatment, maternal, infant, and pediatric care. The program includes provisions for providing emergency care equipment, immunizations, medicines, and bandages. Expanding the pool of Afghan health care personnel is another major feature of our effort; this will help the Afghan people help themselves.

The education program reflects our intention to support and expand primary education in the free areas of Afghanistan. Activities may include basic teacher training; the provision of textbooks and other school supplies; and, if necessary, some funding of school construction and repair costs.

In agriculture, we will seek to increase the availability and accessibility of food supplies and animal transport. We will do this by replenishing livestock, furnishing veterinary care, providing animal feed, and procuring pack animals. In addition, the commodity support program focuses on providing seeds, farming tools, fertilizers, pesticides, and a variety of other humanitarian goods.

The final costs of this new effort are not clear. We have decided to concentrate on programs with immediate impact. We recognize, however, that the scope of our planned effort still exceeds the amount of funds presently available. While building a solid relationship with the resistance Alliance and obtaining full agreement from the Pakistanis on program administration, we plan to build on the solid base established by PVOs. We also intend to encourage other international donors to contribute significantly greater amounts for this purpose.

Senator Kasten: Also, how do you intend to stem the outflow of refugees?

Secretary Shultz: By enabling the resistance movement to provide more and better services to civilians inside Afghanistan, we hope Afghans will have a greater incentive to remain inside their country. This will counter the Soviet Union's brutal policy of driving people out of the resistance-dominated countryside.

Questions Submitted by Senator Hatfield

MIGRATION AND REFUGEE ASSISTANCE

Senator Hatfield: The Senate report accompanying the FY 86 Foreign Operations bill (S. 1816) affirmed support for funding of ICARA II type projects. In addition, the report requested that the Department of State report to the House and Senate Appropriations Committees within thirty days of enactment of this legislation on projects that will be funded in FY 86.

1) The FY 86 Continuing Resolution was approved on December 19, 1985. It is now three months later and the report has not been provided. Why has this provision not been complied with by the Department of State?

2) When will the report be formally transmitted to the House and Senate Appropriations Committees?

Secretary Shultz: A report on the funding of ICARA II type projects was forwarded to the House and Senate Appropriations Committees on March 14, 1986.

MIGRATION AND REFUGEE ASSISTANCE

Senator Hatfield: The Senate report for S. 1816 also contains language which highlights the need for a comprehensive border education program to be managed by the Government of Thailand and UNBRO to prepare refugees on the border to return home upon a negotiated settlement between the Khmer resistance groups and the Vietnamese. The report encourages the Department of State to explore this possibility immediately and report to Congress within six months with a cost analysis.

1) Is this report presently being prepared?

2) Will it be prepared in time to meet the six month deadline in the Senate report for S. 1816?

Secretary Shultz: A report on a border education program for Khmer refugess on the Thailand-Cambodia border was forwarded to the Congress on April 21, 1986.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Senator Hatfield: In January 1986, the second replenishment for IFAD was completed after eight prior meetings. While Congress authorized funding for IFAD for FY 86 and 87 in the International Security and Development Cooperation Act of 1985 (S. 960) and appropriated funds in the FY 86 Continuing Resolution (H.J. Res. 465), no monies were included in the FY 87 budget.

1) Will the Department of State be submitting a budget request for IFAD for FY 87?

2) When will that request be submitted?

3) Will it be submitted as an offset or within available funds? Will it be funded out of the AID bilateral accounts or through the International Organizations and Programs account? Why?

Secretary Shultz: A request for the FY 1986 funds appropriated for IFAD and a FY 1987 budget amendment to provide for the second tranche of our IFAD second replenishment (IFAD II) pledge will be submitted in the near term.

It is our intention to provide for the second and third tranches of our IFAD II pledge from within overall foreign aid request levels. We are currently reviewing the issue of which account and/or budget title should host the IFAD line item.

LDC DEBT REPAYMENT

Senator Hatfield: During the past four years, a large number of developing countries have had increasing difficulties in servicing their foreign debt. The problem has been in the making for more than a decade--countries experienced rising energy costs, contracting export markets and a general decline in export prices relative to import prices, rising real interest rates, and declining economic growth. Until 1982, countries were able to avoid adjusting to the new environment as they had easy access to foreign borrowing which resulted in high accumulations of external debts and debt-servicing obligations. The 1981-83 world recession along with reduced foreign lending by commercial banks exacerbated developing countries' debt problems. Countries have sought relief through International Monetary Fund programs, U.S. balance-of-payment suppo assistance and the rescheduling of foreign debt. The policy reforms undertaken by countries in response to IMSF and U.S. program assistance have improved some countries' fiscal and current account deficits, but external debt levels have increased and the debt burden, for example, in Costa Rica, the Dominican Republic and Jamaica, measured as either foreign debt as a percent of GDP or annual interest and amoritization as a percent of exports (debt-service ratio) has worsened between 1980 an 1984. Developing-country growth rates have declined or stagnated, and social and political unrest have increased.

What alternatives are there for developing countries to repeat debt reschedulings?

Secretary Shultz: Reschedulings of both commercial and official debt of developing countries in recent years have served to facilitate the necessary, though often difficult,

adjustment process in these countries. We will continue to support appropriate reschedulings where the need exists and the country is prepared to implement the policy reforms necessary to restore and promote sustainable growth.

Reschedulings, by themselves, offer only temporary solutions to the immediate debt problems of a particular nation. Developing countries will clearly need to gain expanded access to commercial financing on a long term basis as they undertake the macroeconomic and structural reforms needed to promote growth. We hope to see increased private foreign equity investment play a greater role in providing such financing. Foreign direct investment provides a ready source of non-debt creating financing which does not increase the debt service burden. In addition, it provides a vehicle for the return of flight capital and acts as a stimulus to entrepreneurial dynamism, increased efficiency, and the transfer of technology and managerial skills. We have also encouraged, where appropriate, the conversion of outstanding debt to equity as a means to help reduce debt service and allow the commercial risk to be borne by both creditor and borrower.

Senator Hatfield: With increased trade protectionism being favored among many industrialized countries, how will developing countries earn the foreign exchange to begin resumption of economic growth while continuing to service their foreign debt?

Secretary Shultz: Strong economic performance in the industrial countries is crucial for growth in the developing countries, including growth in both primary and manufactured exports. Since the overall economic situation in the industrial world is improving, I am confident that developing countries will continue to increase their share of developed country markets. An even more significant trend is the growing share of developing country exports going to other developing countries.

This is not to say that protectionist pressures are not a problem worldwide. The trading system is fragile, and protective measures in both developed and developing countries threaten its stability. For this reason, the U.S. and other governments are intent on launching a new round of trade negotiations to open markets worldwide, strengthen the trading system, and expand the rules of the General Agreement on Tariffs and Trade to cover new areas of international commerce. A successful round of trade negotiations is the best insurance that an open, free, and fair trading system will allow developing countries to earn the foreign exchange they need for sustained economic growth.

Senator Hatfield: Treasury Secretary Baker's proposals at the Seoul conference were aimed at the large developing countries, such as Brazil and Mexico, which have high

accumulations of commercial as opposed to official debt. What is being considered for smaller countries such as Costa Rica and the Dominican Republic which have debt portfolios consisting mainly of official loans?

Secretary Shultz: The U.S. Program for Sustained Growth is not limited to any group of countries. It is intended to benefit the full range of developing countries in obtaining additional commercial bank lending as well as expanded access to financing from the multilateral development banks (MDB) particularly the World Bank. Under this initiative, the banking community and MDBs have been called upon to provide financing to any developing country experiencing debt-servicing problems that is prepared to adopt and implement the type of comprehensive economic adjustment program outlined by Secretary Baker in Seoul.

Decisions on new commercial bank lending for individual countries will, of course, continue to be made by the banks based on their assessment of the economic policies and performance of the borrower, the borrower's financing needs and ability to repay.

For the poorest developing countries engaged in serious and comprehensive reform efforts, the second element of the U.S. Debt Initiative will make available several billion dollars in additional IMF, World Bank and donor financing on concessional terms. This plan has been formally approved by the IMF and World Bank Executive Boards and is now moving toward implementation.

A.I.D. STRATEGY AND DEVELOPED COUNTRIES' DEBT SERVICE

Senator Hatfield: The A.I.D. strategy for many developing countries is to encourage them to "grow out" of their debt problems by increasing and diversifying their exports--is this realistic? How can countries producing basically the same products for the same markets and facing declining commodity prices hope to "grow out" of their problems?

Secretary Shultz: The Agency for International Development (A.I.D.) strategy is primarily concerned with promoting economic development, which process of course includes output growth that, among other benefits, facilitates debt servicing. A.I.D.'s growth strategy encourages developing nations' exports, their domestic investment--in capital stock and in people--and foreign investment inflows. A.I.D.'s resource flows and its policy dialogue support expansion in these interrelated areas both directly and through economic reforms that make domestic incentives more developmental, that attract increased private foreign investment and lending, and that will turn capital flight into capital repatriation.

To make debt service payments, a nation must obtain foreign exchange. There are only five ways to obtain foreign exchange for debt servicing: i) cut imports, ii) receive

grants, iii) obtain net foreign investment, iv) acquire new debt, or v) increase exports. In the abstract, any one of the five could be sufficient. But imports have already been compressed in many developing nations. So in practice, increased exports must in most cases be the principal means of provision for increased debt servicing with foreign investment, sometimes including capital repatriation, an important adjunct. Increased exports depend on increased total output, on growth; and increased foreign investment inflows depend on favorable growth prospects. Therefore, both of the recent U.S. debt initiatives concentrate upon improving the investment climate and on other means to promote growth that will support increased exports and debt service. These initiatives are perfectly consistent with A.I.D.'s development strategy.

If growth can be maintained and if protectionist pressures can be resisted within the nations of the Organization for Economic Cooperation and Development, I believe international trade will continue to provide major support for economic development in countries with sound economic policies. But since markets are growing and the product mix is changing, emphasis upon "same products" and "same markets" would be misleading.

World merchandise trade grows faster than world output while trade in manufactures grows almost twice as fast as world manufacturing output. As the content and geographic dimensions of trade changed between 1973 and 1984, the developing nations did so well they increased their share of the world's merchandise exports (excluding fuels) from 13% to 16.5%.

The volume of most tropical exports continues to grow. Some items have even increased their share of world trade. Data from the General Agreement on Tariffs and Trade show that between 1973 and 1983, coffee, tea, cocoa, spices, and alumina grew from 1.9 to 2.5% of world trade. While other tropical commodities (fruits, vegetables, edible oil, timber, and copper ore) declined from 9.2 to 5.9% of world trade.

Sub-Saharan Africa (SSA) and most low income countries did very well during 1960-70. Merchandise exports rose an average 6.2% a year in low income SSA and an average 5.4% a year in all low income countries. But during 1970-82, merchandise exports rose only 0.3% a year in all low income countries and fell an average of 0.8% a year in low-income SSA. During 1983, the exports of low income SSA fell again. The decade of the 1960s demonstrated the ability of low income countries to participate in the world's growing markets. Now, many of the domestic economic policies, that discouraged exports and private investment in recent years are being reformed. Export expansion and investment growth will be good for all countries; but I recognize that some African countries with especially large debt service obligations will have difficulty achieving growth given even the most favorable assumptions.

In all countries, but expecially in the developing countries, manufactures are growing while commodities are declining in relative importance. Between 1965 and 1982, the commodity share of exports fell from 76 to 40% for middle income oil importers and from 90 to 70% for low income countries. These changes show that most developing nations are successfully increasing and diversifying their exports so are participating in the growth of world trade and are adjusting to changing markets and product mixes. These ongoing adjustments will be facilitated by the resource flows and by the economic policy reforms supported by A.I.D. and by the U.S. debt initiatives.

QUESTIONS SUBMITTED BY SENATOR INOUYE

EFFECTIVENESS OF ASSISTANCE TO EGYPT

Senator Inouye: Mr. Secretary, in 1975, with the appropriation of $250 million in what was then called security supporting assistance, the United States embarked upon a program of assistance designed to bring economic and political stability to Egypt. That program has grown to almost $2.5 billion per year; in total, it has amounted to $20,314,370,000 ($8,111,687,000 military, $12,202,683,000 economic).

Yet, economic and political stability has remained an elusive goal.

During this period of massive transfers of assistance from the United States to Egypt, the Government of Egypt has done little to expand Egypt's ability to earn foreign exchange through exports, to improve agricultural productivity, to reduce government subsidies, or to reduce its dependence on outside aid.

Egypt financed the failure to reform by placing too heavy a reliance on

1) revenues from Suez Canal transit fees
2) remittances from workers in the Gulf
3) tourism
4) petroleum exports.

In the past several months, all of these foreign exchange earning activities have collapsed.

It is true that there has been some modest improvement in the standard of living in Egypt, but that has been accomplished not through increased productivity but through heavy -- perhaps insupportable -- indebtedness and, as we saw in the recent isurrection by security police, not all have enjoyed an increase in their standard of living.

Mr. Secretary, Egypt does not appear to me to be a stable country. After ten years of effort and the expenditure of billions of dollars, we have not been able to encourage fundamental economic policy reforms. Mismanagement and indecision continue to mar economic productivity.

The security Egypt has bought through the purchase of expensive military hardware is being undermined by the cost of military debt.

Moreover, after ten years of USAID involvement in Egyptian agriculture, the failure to achieve necessary reforms has left Egypt with a food import bill that now exceeds $3 billion per year.

Is it not time to re-evaluate our ability to promote economic and political stability in Egypt through our aid program?

Secretary Shultz: I appreciate your question. Of course, we should be constantly evaluating and examining everything that we do. I know you're trying to put matters in a questioning way, but I think that the judgmental implications in the question are much too harsh. Egypt has its troubles. What country doesn't?

President Mubarak has been trying to move things along. We have had some successes with subsidies and economic reforms. We continue to work on those. I'll ask (Deputy Aid Administrator) Morris to comment on that in a minute. I was interested to see how firmly President Mubarak put down the problems they had in Cairo recently, and I think Egypt has been a very consistent and strong supporter of the peace process and of the efforts to attain more stability in that part of the world. I think that matters a lot.

Certainly, we can sit down and find lots to be unhappy with about the situation in Egypt, and the Egyptians can match us. But they are trying to improve matters, and I think they have made some progress. I think that we should continue and persevere in what we're trying to do with Egypt and with Israel and in the Middle East, hard as it is. It's very difficult and frustrating. There's no question about it.

Mr. Morris, would you comment on the aid program?

Mr. Morris: Yes, Sir, just very briefly, to augment what the Secretary has said. We feel as though there has been some progress, albeit not as much as one would hope in an ideal world. We are continuing those discussions and evaluations constantly to monitor the effect of our assistance.

For example, the water and sewer rates have been increased; electricity rates for the first time exceeded the rate of inflation. There have been production increases in agriculture, particularly in corn and in wheat as a result of some pricing changes, and we are looking forward to further freeing up that sector in particular by the elimination of subsidies over a period of time.

The Egyptians have agreed on a 13-point economic reform program which is the subject of negotiation now regarding the 1986 aid assistance. We believe they take it seriously, and we're optimistic that the progress I just sketched for the last year will be continued in the future.

STABILITY OF EGYPT

Senator Inouye: Mr. Secretary, the recent insurrection by security police in Egypt apparently caught everyone off guard. President Mubarak responded quickly, and I understand he fired the Minister of Interior who had authority over this 300,000-man police force.

Initial reports indicated that the riots left 36 dead and 321 injured. Subsequently, the new Minister of Interior reported that the dead totaled 107 and the wounded 719. Most astonishing, however, was his report that 17,000 conscripts took part in the insurrection and that, as of last Thursday, 8,011 remained "at large."

Mr. Secretary, is Egypt stable?

Secretary Shultz: The upheaval was serious, but we do not believe that it shakes the stability of the Mubarak Government or the stability of Egyptian society. It is important not only to look at the event itself, but also the reaction of the Government and the Egyptian people. The Government moved decisively to end the riots and the military performed efficiently and with discipline. The local media reported the riots and damage promptly and thoroughly. Perhaps most importantly of all, the people of Cairo supported the Government by accepting the curfew and other inconveniences. The disturbances did not broaden.

MILITARY ASSISTANCE AND THE POLICE RIOTS

Senator Inouye: Has our military assistance been appropriate? The F-16 is a wondrous aircraft, but it is of little utility in confronting rioting policemen. Would it not have been better to concentrate on improving the living conditions of soldiers and policemen?

Incidentally, were these police recruits who rioted not members of the same security force which provided protection for the U.S. Embassy in Cairo?

Secretary Shultz: I believe our military assistance program for Egypt has been appropriate. The Egyptians are currently in the process of modernizing their armed forces by replacing an increasingly obsolescent inventory with U.S. weapon systems. This is a massive and expensive, but very necessary, undertaking and the results to date have been good. Those who manage our assistance program in Egypt report that the Egyptians are making excellent progress in mastering U.S. techniques of military management and maintenance of U.S. weapon systems.

The question of improving the living standard of Egyptian policemen is a matter for the Egyptian Government to decide. President Mubarak has indicated that it will be given a high priority. I will say, however, that I doubt that anyone would seriously argue that improving the living conditions of the police is an alternative to a strong, viable national defense, which has been the objective of our military assistance program.

The police conscripts who rioted are members of the Central Security Forces, as are those that guard the U.S. Embassy in Cairo. During the riots, the police at the Embassy

were replaced by units of the military. We were very pleased with the Egyptian Government's concern for the protection of our Embassy.

EGYPTIAN FMS DEBT

Senator Inouye: Mr. Secretary, Can Egypt repay its military debt to the United States?

Secretary Shultz: Despite growing foreign exchange constraints resulting from declining oil revenues and other factors, we expect the Egyptians will continue to service their FMS debt.

BROOKE AMENDMENT

Senator Inouye: Egypt is approaching the one-year limit on repayment arrears allowed under the Brooke Amendment to the foreign assistance act. It has been paying, figuratively speaking, on the eleventh hour of the twenty-ninth day of the eleventh month. Is Egypt in danger of incurring sanctions under the Brooke Amendment? This would lead to the termination of all U.S. assistance, would it not?

Secretary Shultz: The Egyptian government is aware that arrearages of over one year on its FMS payments will trigger Brooke Amendment sanctions. The Egyptians have assured us they will make their payments before reaching the Brooke Amendment threshold.

Once the Brooke Amendment is triggered for any country, no further assistance made available under the the annual foreign assistance appropriations act may be furnished to that country. Such assistance includes Foreign Military Sales credits, International Military Education and Training, and Economic Support Funds -- all of which Egypt receives. It does not include food assistance, which is covered by an agriculture appropriations act.

EGYPTIAN DEBT PAYMENTS

Senator Inouye: Mr. Secretary, this year, the Administration proposes to provide Egypt $1.3 billion in FMS credits, for which repayment is to be forgiven. Egypt must pay $540 million in interest on prior FMS loans. To avoid additional penalties on overdue FMS debt, it must also pay $525 million in arrears.

If we add to these payments, "progress payments" which are due to equipment purchased in prior years under the so-called "cash flow financing", i.e., equipment which Egypt is allowed

to purchase on the assumption that cash will be made available in subsequent security assistance programs, considerably less is available for the purchase of new equipment.

Now, if we add to these payments, the payments which must be made for follow-on costs to maintain and exercise equipment bought in earlier years, even less is available for new purchases. In fact, I believe we have reached a negative availability. That is, Egypt must pay out more than it gets in.

Do you agree with this analysis?

Secretary Shultz: I do not agree that Egypt has reached a point of "negative availability." We continue to make funding available and Egypt continues to receive, and will receive in the future, delivery of new equipment. In fact, under US law, FMS funding can be used only for the purchase of defense articles and equipment. It is not available for debt service payments. There are constraints, as you point out, on Egyptian FMS spending: Progress payments and payments for follow-on support are a major part of the current FMS budget. Egypt is currently making payments on a large amount of equipment which it has already received through cash flow financing in previous years.

Egypt's debt is a serious burden. Because we were concerned that Egypt's military debt could undermine economic stability, which is the underpinning of a strong national defense -- and could thus threaten the very objective our military assistance program was designed to promote -- we converted our military assistance to Egypt to an all-grant basis beginning in FY 1985. We realize that debt payments continue to be a burden for Egypt, as they are for many countries. We are continuing to explore the possibilities for some type of debt relief. Unfortunately, there are no easy solutions.

FINANCING NEW PURCHASES

Senator Inouye: Of the $1.3 billion proposed for FMS assistance to Egypt this year, how much would be available to finance new purchases, after the payments I have enumerated are made?

Secretary Shultz: After payments of approximately $800 million for progress payments under cash flow financing and $200 million for follow on support, Egypt will have about $300 million available for the purchase of new equipment. Much of this will probably be spent on progress payments for equipment bought in this fiscal year.

CASH FLOW FINANCING ELIGIBILITY

Senator Inouye: Is Egypt still eligible for cash flow financing?

Secretary Shultz: Yes, Egypt is still eligible for cash flow financing and it is anticipated that Egypt will continue to make purchases on that basis.

FUTURE PURCHASES OF MILITARY MATERIEL

Senator Inouye: Is it reasonable to think that Egypt can now, or in the near future will be able to, afford major new purchases of military equipment?

Secretary Shultz: Yes, Egypt will be able to afford the purchase of some new military equipment in the future. U.S. assistance is provided on a forgiven credit basis for this purpose.

OUTSTANDING ORDERS

Senator Inouye: Does Egypt have outstanding orders for major purchases of military equipment?

Secretary Shultz: Yes, Egypt has outstanding orders for F-16 C and D aircraft, M60 tanks, TPQ 37 radars, the Chaparral Air Defense System, AIM 7-F missiles, and the E2C aircraft.

FUTURE PAYMENTS

Senator Inouye: How will Egypt make future payments on purchases made now under the cash flow financing arrangement?

Secretary Shultz: We anticipate that Egypt will continue to make payments as it does at present, through progress payments from FMS funding made available in future years.

Senator Inouye: Mr. Secretary, in direct contravention to the expressed wishes of this committee and our counterpart committee on the House side -- not to mention the Congress as a whole -- the Administration has proposed a rescission of $39,760,000 in funding provided for Contributions to International Organizations and Programs.

Not only are reductions proposed to specific earmarkings of assistance for programs favored by the Congress, such as UNICEF and UNDP, the Administration also proposes to increase funding for programs cut by the Congress.

How should we regard this, Mr. Secretary? Is it a deliberate slap in the face?

Secretary Shultz: The overriding need for austerity in the Federal budget prompted the rescission request. Essentially, the rescission request eliminates the aggregate amount of the appropriation which is in excess of the FY 1986 request level. The only signal implied in the request is the recognition that in these tight budget times highest priority must be given to areas where the direct connection to U.S. interests is clear and undiluted. Given the nature of multilateral organizations, this criterion implies a limit somewhat greater than usual on our ability to support their activities.

Senator Inouye: Why do you believe that funding for UNICEF should be cut from the amount provided by the Congress for fiscal year 1986?

Secretary Shultz: Again, the overriding need for austerity in the Federal budget prompted the $39.7 million rescission request, which includes a reduction in funding for UNICEF of $12 million below the appropriated level. There is no other reason for the reduction for UNICEF in FY 1986. I would note that in accordance with Public Law 99-190 an additional $5.35 million was transferred to UNICEF for FY 1986.

Senator Inouye: How do you justify the proposed 29% reduction in UNICEF funding for fiscal year 1987?

Secretary Shultz: Although the FY 1987 request for UNICEF of $34.2 million is less than the amount appropriated in FY 1986, it is $7.2 million more than our request level in FY 1986. This increase acknowledges that UNICEF's appproaches have generally been consistent with U.S. development assistance priorities and that UNICEF complements and reinforces U.S. bilateral assistance. Therefore, we believe UNICEF is deserving of a larger allocation.

MOZAMBIQUE AID JUSTIFICATION

Senator Inouye: Mr. Secretary, the Reagan Administration has sought to generate broad support for anti-Communist insurgent groups, ranging from those fighting in Afghanistan to the armed opposition in Nicaragua.

I am surprised to find that you are proposing to give $25 million to the Marxist government of Mozambique, while considering military assistance to rebels fighting the Marxist government in Angola. Is there a consistent policy framework which will aid in explaining this apparent contradiction?

Secretary Shultz: Yes, there is. The intent of our assistance to freedom fighters such as those in Afghanistan and Nicaragua is to stop the spread of Communism. What we see in Mozambique today is a government that, having seen Communism fail to develop a healthy economy, is backing away from the

Soviet model and moving toward non-alignment supported by adoption of a mixed economy. Our aid to Mozambique is designed to encourage and abet this favorable development.

We believe the proposed $15 million in ESF and $10 million in PL 480 assistance is a minimum recognition of the steps taken by the Government of Mozambique toward genuine non-allignment, capped by its dramatic decision to no longer support the Soviets in the UN vote on Afghanistan, and the progress it has made in converting its economy. We also believe this assistance is in line with the estimated $30 million worth of new private U.S. investment to be placed in Mozambique during 1987.

EL SALVADOR: CAPTAIN AVILA

Senator Inouye: Mr. Secretary, when you appeared before this committee last year, I asked the whereabouts of Captain Eduardo Avila, a man whose arrest in connection with the murder of two AIFELD workers was once cited as evidence of improved human rights conditions in El Salvador. You responded that, to the best of your knowledge, Captain Avila was still in San Salvador on an unpaid leave-of-absence from the Salvadoran army. Can you tell the committee of the present whereabouts of Captain Avila?

Secretary Shultz: Captain Avila remains in San Salvador on unpaid leave-of-absence from the Salvadoran Armed Forces. We understand that he is employed as the security chief of a chicken ranch near San Salvador. So long as he is technically within the Armed Forces his movements are easier to control and his ability to leave the country is restricted.

EL SALVADOR: SHERATON MURDERS

Senator Inouye: Have all investigative actions with respect to the so-called Sheraton murders been completed, and have all avenues been pursued to bring to justice those who ordered and carried out the January 1981 murders of Michael Hammer and Mark Perlman and the Salvadoran Land Reform Institute Director, Jose Rodolfo Viera? These steps, as you recall, are required by section 547 of the fiscal year 1986 Appropriations Bill.

Secretary Shultz: The Salvadoran Government is conducting an investigation into the role of Captain Eduardo Avila in the Sheraton murders. The Minister of Justice heads the Investigative Commisssion which is pursuing several leads which may yield evidence against Avila which will lead to his indictment by the Salvadoran courts. On March 9, a group of five investigators possibly shed light on the role of Avila in the Sheraton case as well as the Romero assassination. The investigative team is working to accumulate the necessary evidence against Avila before the November deadline for

renewing the case against him. Thus, we cannot say that "all investigative actions" with respect to this case have been completed nor that "all avenues have been pursued to bring to justice those who ordered and carried out the January 1981 murders" at the Sheraton Hotel.

GETTING THE FEDERAL BUDGET UNDER CONTROL

Senator Inouye: Mr. Secretary, You note that you are not seeking large increases in foreign assistance. You say that you are seeking "essentially the same as we requested in FY 86." For the record, I think it should be pointed out that between 1980 and 1986:

Military Assistance grants have grown by 580 percent

Foreign Military Sales credits and grants increased 96 percent.

Economic Support Fund cash transfers increased 80 percent.

Now, in terms of appropriated amounts, you are again requesting substantial growth for FY 1987:

A 33 percent increase in Military Assistance grants

A 23 percent increase in military training

A 15 percent increase in Economic Support Funds.

I must ask, is the Department of State doing its fair share in getting the Federal Budget under control?

Secretary Shultz: Yes, Senator, the Department is doing its share to get the budget deficit under control. Our budget request reflects the priority that this Administration places on foreign affairs and national defense, and it fits into an overall Administration budget that meets the deficit targets of the Gramm-Rudman-Hollings Act.

Let me put some of the figures you have quoted into context. During the Carter Administration the Military Assistance Program was funded at levels varying between $217 and $279 million per year. During the first year of this Administration, FY 1982, we continued at a similar level, $265 million.

However, it quickly became apparent to us that the philosophy of the seventies -- which held that improvements in the economies of developing nations would allow us to increase the percentage of aid provided in the form of loans -- had become obsolete. The worldwide economic downturn of the late seventies badly hurt many developing countries, which were soon weighed down by heavy debt burdens. It was in order to ease this burden that the Administration began to shift more funds

into the grant MAP program in FY 1983. Paranthetically, I would like to note that our FY 1986 MAP program totals $748 million, up from $268 million in FY 1981, an increase of less than 200%, not the 580% you noted in your question. The difference in our figures relates, I believe, to the fact that the MAP program used to contain an off-budget component, which was the use of receipts from the sale of previously-leased military equipment. The actual program level in FY 1980, for example, was $280 million rather than the appropriated $110 million.

It was this need to help friendly developing nations protect themselves against real threats to their security, without burdening their weakened economies, which also drove us to introduce the program of concessional FMS loans in FY 1985. This program has helped us to ensure that debt burdens are, at the very least, not increased to pay for security needs. At the same time, it has provided a very real savings to the U.S., as it allows us to cut back aggregate FMS levels while still increasing the economic value of the program for various recipient countries.

For both of these reasons, to help ease third world debt burdens, and to provide a savings to the U.S. Government, I strongly urge the Congress to approve our request to raise the cap on concessional loans.

Furthermore, as regards increases in the FMS program, I would note that in FY 1980 -- which you use as your baseline year -- we provided no FMS credits to Egypt, and $1 billion for Israel. In FY 1986, the corresponding numbers are $1.244 and $1.722 billion. The rest of the account grew by barely one-third over those seven years.

Finally, I would like to turn to the International Military Education and Training Program (IMET). This program, which costs the government only $52 million in FY 1986, is one of the cheapest, most effective programs we have in the foreign policy arena. For ridiculously small sums of money it provides us with access to a group -- the military -- that belongs to the elite in most third world countries. So, although the increase we are asking may look big in percentage terms it is quite small in dollar terms, and amply justified.

Questions Submitted by Senator Leahy

U.S. RESPONSIBILITY FOR RESISTANCE CONDUCT

Senator Leahy: Mr. Secretary, since we fund the Contras, provide them with various kinds of assistance, and work with them to curb human rights abuses, would you agree that the US accepts a measure of responsibility for their actions? If so, what exactly is the Administration doing to ensure that the US government and the US taxpayers' money is not being used to commit widespread human rights abuses?

Secretary Shultz: While the discipline of resistance

forces is an internal responsibility, as a matter of policy we would not and do not support organizations which engage or condone improper conduct by their members. We have informed the resistance leaders of this policy and they have assured us that they are committed to ensuring proper behavior by their members. Futhermore, the President's request for assistance and the Senate Amendment include $3 million to support human rights programs and a clear commitment to terminate assistance to any group which tolerates human rights abuses in its ranks. In the meantime, the Nicaraguan Humanitarian Assistance Office has funded a startup program of assistance to the UNO human rights commission.

UNO: HUMAN RIGHTS

Senator Leahy: According to information provided to the Americas Watch on February 27th by UNO-CDH, which obtained the information from cases selected by the FDN military prosecutor, of 14 cases prosecuted by the FDN 10 involve abuses committed by contras against other contras, 3 involve violations of property rights, and only 1 case involves a serious abuse of human rights against three civilians in Nicaragua.

a. Attached is the list of cases which was provided to the Americas Watch by the UNO-CDH. How many of these cases were among the 21 cases cited in the November 6th, 1985 State Department report to the Congress, pursuant to Section 722J of the International Security and Development Cooperation Act of 1985?

Secretary Shultz: All of the attached cases may have been among those cited in the November 6, 1985 Report to Congress. As noted in the report, the resistance members were accused of crimes under the "Code of Conduct" ranging from theft to homicide. While most of the cases do not involve civilians, they show that UNO's leadership is acting against improper conduct by its members. Furthermore, when reports of improper conduct against civilians are received, the leadership takes appropriate action. It is difficult and time consuming to gather the details of alleged atrocities since CDH's and the FDN prosecutor's personnel and resources are limited. Also, they do not have unimpeded access to Nicaragua. They are, however, acting on reports received within the limits of their capabilities.

Senator Leahy: Does the Administration consider prosecution of contra crimes against other contras and violations of property rights as prosecution of human rights violations?

Secretary Shultz: UNO-CDH and the FDN prosecutor are responsible for ensuring that resistance forces conduct themselves in accordance with relevant laws and accepted norms of behavior in their dealings with the civilian population, and for maintaining discipline within the resistance organizations. Human rights violations primarily concern acts against the civilian population, but should also encompass

treatment of combatant prisoners and wounded. The establishment of a just and effective system to enforce discipline within UNO directly contributes to improved human rights practices by troops in the field.

Senator Leahy: Please provide information on all cases investigated and prosecuted by UNO-CDH and the FDN military prosecutor, including the names of the victims and identification as to whether they are civilians or contras, the date of the crimes, the names of the perpetrators, and the sentences received.

Secretary Shultz: We will provide this information to the Committee when it is received.

MILITARY AID TO THE PHILIPPINES

Senator Leahy: With the change in government in the Philippines, what changes if any in the military aid program will be required to combat the insurgency? Does the administration view the Aquino administration as requiring more or less military aid than the former Marcos administration, and why? Does the administration plan to replace Philippine military equipment destroyed during fighting by rival military groups prior to the change in government in the Philippines?

Secretary Shultz: We believe that the military assistance program was on the right track even before the recent change in government in the Philippines. However, the Congress pared down the amounts we requested in each of the past two fiscal years. As a result, the Armed Forces of the Philippines (AFP) did not receive adequate amounts of military aid to conduct an effective counter-insurgency camapaign against the guerrillas of the communist New People's Army or to maintain equipment it had purchased from the U.S. in previous years.

We believe that the new Philippine government will adopt a comprehensive counter-insurgency plan to deal with the communist guerrillas. This program will likely have several components: a cease-fire/amnesty proposal, a resettlement program, a civic action program, and a military campaign against the insurgents.

To support such a plan and to deal adequately with the insurgency's root socio-economic causes, both military and economic aid are necessary. We plan to request an increase in both economic and military assistance to the new Aquino government in order to allow them to combat the insurgency on both levels.

As far as the replacement of any military equipment destroyed during the recent change in government, we do not intend to replace the equipment per se. Two of the foremost goals of our military assistance program are to enable the AFP to fight the insurgency and to defend the Philippines from external attack. If a particular item destroyed during the limited fighting associated with the transition in government

is necessary for external defense or for the counter-insurgency effort, it would be replaced with regard to its priority in meeting these two goals.

SPECIAL FORCES TO THE PHILIPPINES

Senator Leahy: Recently there have been reports that DOD is discussing the option of deploying up to 300 Special Forces personnel to the Philippines to assist the Philippine Armed Forces (AFP). They would be "advisors but would not be involved in combat". What specific functions does DOD propose these 300 personnel will perform? Doesn't the "advisory role" trigger the reporting requirements of the War Powers Resolution? Is there any indication the new Philippine Government is interested in this type of U.S. military aid? What are the financial costs associated with this proposal?

If the U.S. deployed U.S. military personnel to assist the AFP, for example 300 Special Forces personnel, would this violate the "gentleman's agreement" whereby the insurgents do not interfere with U.S. military operations and personnel as long as U.S. military and intelligence personnel are not directly involved in the AFP counter insurgency program?

Would such a deployment likely result in the insurgent targeting U.S. personnel involved in the program? Would such a deployment likely result in the insurgents interrupting U.S. military operations in the Philippines and/or targeting U.S. personnel at the bases? What actions would be required to respond to this threat and what would they cost?

Secretary Shultz: The new Philippine government has not requested U.S. advisors and we have no intention at this time to dispatch Special Forces advisors to the Philippines.

Senator Leahy: In June 1984, the Comptroller General issued a decision on the use of operations and maintenance (O&M) funds which said in part that O&M funds could not be used to perform security assistance functions and where such funding had taken place the O&M account must either be reimbursed or an Anti-Deficiency Act violation must be reported. The U.S. Western Command (WESTCOM) has used O&M funds to finance studies of the AFP logistics system and to recommend changes to the AFP. This action has been questioned by the DOD/IG. What is the current status of the DOD/IG inquiry? What is the legal basis for this WESTCOM activity? Why isn't this type of activity reported as security assistance to the Philippines?

Secretary Schultz: The Inspector General's report on the Audit of the Philippines Securtiy Assistance Program was issued on February 28, 1986. The report did not take exception to the U.S. Western Command's use of O&M funds to finance studies of the AFP logistics system. WESTCOM considered the studies as being within the scope of their mission and the O&M funds in question amounted to less than $10,000. A copy of the DOD/IG report was provided to the committee.

NATO COMPENSATORY MEASURES

Senator Leahy: NATO has long recognized that events outside the Treaty area could affect the availability of forces for the defense of Europe. One such area is Southwest Asia and could require U.S. forces which would otherwise be available for Europe. NATO has recognized the need to compensate for this potential loss. If U.S. troops were diverted, any NATO measures taken would simply backfill, not enhance, NATO capabilities; without such measures NATO's defense posture is weakened.

What is required by NATO and its members to compensate for the potential absence of U.S. combat forces, support forces, and related supplies and equipment? What would these measures cost? How would they be funded?

Secretary Shultz: The compensatory measures identified in NATO's Southwest Asia Impact Study (SWAIS) were developed, at U.S. urging, as a supplemental package to the 1985-1990 Force Goals. In 1984, NATO Defense Ministers adopted this supplemental set of force goals to compensate for possible deployments of U.S. forces to Southwest Asia.

Most of the supplemental force goals called for feasibility studies in order to identify specific measures to achieve recommended improvements. New force goals for 1987-1992 are being developed that call for actions based on some of the previous feasibility studies. Other studies will not be far enough advanced to support specific force goal development for the current biennial cycle.

AUDIT REPORT

PHILIPPINE SECURITY ASSISTANCE PROGRAM

No. 86-073 February 28, 1986

DEPARTMENT OF DEFENSE
INSPECTOR GENERAL
OFFICE OF THE ASSISTANT INSPECTOR GENERAL FOR AUDITING
1300 WILSON BOULEVARD, 12th FLOOR
ARLINGTON, VIRGINIA 22209-2394

February 28, 1986

MEMORANDUM FOR COMMANDER IN CHIEF, U.S. PACIFIC COMMAND
CHIEF, JOINT U.S. MILITARY ASSISTANCE GROUP-PHILIPPINES

SUBJECT: Final Report on the Audit of the Philippine Security Assistance Program (Report No. 86-073)

This is our final report on the subject audit. The audit was made from January through April 1985. The objectives of the audit were to evaluate the effectiveness and efficiency of the administration of the Security Assistance Program and to determine whether all reimbursable costs had been properly priced and billed. We also reviewed the administration of the International Military Education and Training Program. The FY 1985 estimated cost to operate the Joint U.S. Military Assistance Group-Philippines (Assistance Group) was $3 million. Also, the training of Filipino military personnel under the International Military Education and Training Program was estimated to cost $1.9 million.

Our audit showed that the Security Assistance Program was effectively and efficiently managed. However, improvements were needed in managing aircraft and reviewing the International Military Education and Training Program. The results of the audit are summarized in the following paragraphs, and the details, together with audit recommendations, are contained in Part II of this report. We also found that the open mess operation had a high ratio of honorary members to U.S. members. Subsequent to our audit, the Assistant Secretary of Defense (International Security Affairs) took appropriate action to control future membership. Consequently, a finding on the matter is not presented in the report.

Mission justifications for use of the C-12A aircraft

controlled by the Assistance Group were not adequate. As a result, we could not determine if the missions were for valid security assistance functions or if they required reimbursement from other organizations. We recommended that the Chief of the Assistance Group require that the justification for each mission flown include the specific purpose of the mission and the locations to be visited (page 3).

Assistance Group personnel had not determined whether Filipino military personnel were working in jobs for which they had been trained under the International Military Education Training Program, which is funded by the Security Assistance Program. As a result, it was not known if the $1.9 million spent on training Filipino personnel was providing its intended benefits of improving the capabilities of the Philippine Armed Forces. We recommended that the Chief of the Assistance Group obtain from the Philippine Government accurate, complete, and timely reports regarding personnel trained with United States funds under the International Military Education and Training Program and monitor the use of these personnel after training (page 5).

A draft of this report was provided to the Commander in Chief, U.S. Pacific Command and the Joint U.S. Military Assistance Group-Philippines on September 9, 1985. Comments were received from the Deputy Chief of Staff, U.S. Pacific Command, on November 7, 1985, and the Chief of the Assistance Group on October 16, 1985.

The Deputy Chief of Staff, U.S. Pacific Command and the Assistance Group agreed that mission documentation for C-12A aircraft was weak. As a result of the audit and subsequent emphasis on aircraft use, the Assistance Group has revised its mission request, approval, and reporting procedures. Both officials maintained that the lack of documentation did not mean that the C-12A aircraft was used either inefficiently or inappropriately.

The Deputy Chief of Staff agreed that the Assistance Group needed to determine if Filipino military students trained at U.S. expense were being properly utilized, and that appropriate Assistance Group action officers should stress this requirement during each visit with the Armed Forces of the Philippines. The Chief of the Assistance Group also concurred with the recommendations pertaining to the International Military Education and Training Program. He said that he would request a 2 year history from the Armed Forces of the Philippines of personnel trained under the International Military Education and Training Program and that Assistance Group personnel would be advised of the requirement to observe, during field visits, the utilization of these personnel and to document the observations. Additionally, trip reports will be modified to better document utilization of U.S. trained personnel.

The draft report contained a recommendation that the Defense Security Assistance Agency reduce the Flying Hour Program for the Assistance Group. In view of the responses indicating that the use of other available transportation in the Phillipines was unacceptable from a safety standpoint, we have deleted this issue from the final report. Managements responses to the report are adequate and additional comments are not required.

All of the recommendations in this report relate to internal control deficiencies as defined by Public Law 97-255, Office of

Management and Budget Circular A-123 and DoD Directive 5010.38. Therefore, this report, is being provided to the senior official responsible for internal controls within your unified command.

The courtesies extended to the staff during the audit are appreciated. Appendix B lists the distribution of this report.

Alvin Tucker
Deputy Assistant Inspector General
for Auditing

Enclosure

REPORT ON THE AUDIT OF THE
PHILIPPINE SECURITY ASSISTANCE PROGRAM

PART I - INTRODUCTION

Background

The U.S. Security Assistance Program in the Republic of the Philippines is administered by the Joint U.S. Military Assistance Group-Philippines (Assistance Group). The mission of the Assistance Group is to:

- manage the Security Assistance Program between the U.S. Government and the Philippine Government,

- advise and assist the Philippine Armed Forces on military matters (except combat operations) and on other matters as approved or directed by the U.S. Ambassador, and

- assist the Philippine Government in achieving a credible defensive capability.

The Assistance Group accomplished its mission with 27 U.S. military personnel, 6 U.S. civilians and 4 foreign national personnel. In addition, the Assistance Group employed 112 Filipino personnel through a contract with a local firm. Funds used to manage the Security Assistance Program in the Philippines are obtained from two sources. The first source is Congress' appropriation of Military Assistance Program funds as a grant that pays the costs DoD incurs in managing the Security Assistance Program. The second source is the Foreign Military Sales Trust Fund that finances the cost of activities administering foreign governments' purchases of U.S. military goods and services. In addition, the Philippine Government provides cost-free, assistance-in-kind support in the form of 68 Armed Forces security guards and liaison personnel. The Assistance Group's estimated operating costs for FY 1985 were about $3 million, not including $24,000 as the estimated value of cost-free, assistance-in-kind support.

Objectives and Scope

The objectives of the audit were to evaluate the effectiveness and efficiency of the administration of the Security Assistance Program and to determine whether all reimbursable costs had been properly priced and billed. In addition, we reviewed the Assistance Group's administration of the International Military Education and Training Program, which is funded by the Security Assistance Program. Our audit was performed from January through April 1985 and generally covered transactions from October 1983 through March 1985. A list of the activities visited is at Appendix A. This economy and efficiency audit was performed in accordance with generally accepted government auditing standards.

Prior Audit Coverage

There were no prior audits of the Security Assistance Program in the Philippines within the past 5 years.

PART II - FINDINGS AND RECOMMENDATIONS

A. Aircraft Usage

FINDING

Mission justifications for flights on the C-12A aircraft controlled by the Joint U.S. Military Assistance Group-Philippines (Assistance Group) were not adequate. This condition occurred because the mission requests, approvals and flight reports did not contain adequate information. As a result, we could not determine if the C-12A aircraft missions were for valid security assistance management purposes or if they should have been reimbursed by other organizations.

DISCUSSION OF DETAILS

Background. The Assistance Group and the Defense Attache Office shared the use of a C-12A aircraft until May 1984 when the Assistance Group received a dedicated C-12A aircraft to support its mission. This aircraft was requested due to a projected increase in flying hour requirements and to reported scheduling difficulties in sharing an aircraft with the Defense Attache Office.

The Assistance Group used 290 flying hours in both FYs 1982 and 1983. The flying hours were increased to 340 hours in FY 1984. For FY 1985, 400 flying hours were requested, but only 320 were approved. Thirty hours were also approved for reimbursable flights.

Adequacy of Documentation. We reviewed the 106 C-12A missions and 366.4 flying hours used during the year that ended February 28, 1985. We found that the documentation supporting the missions was often inadequate and as a result, we either could not determine if the missions were for valid security assistance purposes or if they were primarily in support of other organizations and should have been reimbursed.

The justifications shown on the mission request forms for at least 31 missions (80.7 hours) were inadequate and we were not able to conclude if the missions were valid. For example, we found six missions (15.4 hours) that did not have justifications and six missions (12.5 hours) that were to destinations other than those for which the justifications were written.

We noted six missions (7.5 hours), which cost $4,800, that were flown for Assistance Group personnel. These missions appeared to be unauthorized because the documentation did not indicate that the flights were related to security assistance. For example, the justifications for some missions were for attending a change of command ceremony, making a VIP visit at a joint exercise, and attending a U.S. military birthday celebration.

We found 16 missions (48 hours) where the documentation led us to believe that the mission should have been reimbursed by other organizations. For 11 of the missions (29 hours), which cost about $18,900, the documentation indicated that the flights were either to support Philippine Armed Forces personnel or a U.S. technical representative in the Philippines who was supported by a Foreign Military Sales case. For the remaining five missions (19 hours), which cost about $12,200 the documentation indicated that the flights were in support of the Defense Attache Office or the U.S. Embassy.

RECOMMENDATION FOR CORRECTIVE ACTION

We recommend that the Chief, Joint U.S. Military Assistance Group-Philippines require that the justification for each mission to be flown by the C-12A aircraft include the specific purpose of the mission and the locations to be visited.

MANAGEMENT COMMENTS

The Deputy Chief of Staff, U.S. Pacific Command agreed that mission documentation for C-12A flights was weak. He noted that his review of the missions questioned in the audit indicated that the management decisions to use the aircraft was prudent in almost every case, but that documentation was lacking. He said that "As a result of the DoD, IG audit and subsequent USCINCPAC emphasis on C-12A aircraft use, JUSMAG-PHIL has completely revised its mission request, approval, and reporting procedures." He also said that "Proper documentation has been made a special interest item for the Performance Evaluation Group (PEG) in future evaluations of C-12A operations."

The Chief of the Assistance (the Chief) said that on very few occasions reimbursement of security assistance monies for use of the C-12A aircraft would have been appropriate and maintained that all the flights questioned except one were related to security duties prescribed by the Foreign Assistance Act and DoD Manual 5105.38. The Chief noted that a well documented trip report could have averted this misunderstanding and has instituted procedures to ensure that all C-12A missions are so documented. He said that since the audit, the Assistance Group has developed internal procedures which will ensure that missions flown have a strong statement of purpose and are followed up with detailed trip reports to further validate their legitimacy.

B. Training Program for Filipino Military Personnel

FINDING

The Assistance Group had not determined if Filipino military personnel trained with security assistance funds under the International Military Education and Training Program were properly utilized. Student utilization data provided by the Philippine Armed Forces was incomplete and not timely. During field visits, Assistance Group personnel were not observing the use of former students. As a result, it was not known if the $1.9 million spent to train Filipino personnel was providing its

intended benefit of improving the capabilities of the Philippine Armed Forces.

DISCUSSION OF DETAILS

Background. The Security Assistance Management Manual states that Security Assistance Offices are responsible for obtaining appropriate assurances showing that personnel trained under the International Military Education and Training Program are properly and effectively used. Proper and effective use is defined as prompt assignment in the skill in which the individual received training. This assignment would be for a period of time (normally 2 to 3 years) sufficient to justify the expense to the United States. Security Assistance Offices are required to:

- Implement a system to periodically review foreign trainee assignments after the trainee returns to his duty station.

- Maintain surveillance over utilization of U.S.-trained personnel.

Adherence to these requirements are especially important in the Philippines where, in addition to paying for the cost of training, security assistance funds under the International Military Education and Training Program are used to pay for temporary living allowances and, beginning in FY 1985, will be used to pay for round trip air transportation to the United States.

Receipt of Utilization Reports. The Assistance Group had continued difficulty obtaining student utilization reports from the Philippine Armed Forces. During 1984, some training reports were received, but these reports were incomplete. We compared the number of reports received as of March 8, 1985, that were for personnel trained during FYs 1982 and 1983 with the total number of students trained under the Program during this period. We found that 150 of the 544 students trained in FYs 1982 and 1983 were not shown on the reports. Furthermore, of the 394 students included in the reports, specific assignments were not shown for 83 students and no information was shown for 7 students.

In January 1984, the Philippine Army provided utilization reports for students trained in FYs 1982 and 1983. The other Philippine services did not provide utilization reports for FYs 1982 and 1983 until June 1984. There was no documented effort at the Assistance Group to obtain updated reports during the remainder of FY 1984 or the first half of FY 1985, even though it was policy of the Assistance Group to obtain updated utilization reports in April and October of each year. Assistance Group personnel told us that they had made some attempts to obtain the reports but were unsuccessful.

Observation of Personnel Utilization. Of the 23 officers at the Assistance Group, the job descriptions for 13 required that the officers observe the use of personnel trained under the International Military Education and Training Program. In addition, the Assistance Group training officer was required to observe the use of these U.S.-trained personnel. However, our discussions with the training officer or the other 13 officers disclosed that they had not made trip reports on observing the use of the U.S.-trained personnel. We were not able to find any documentation of the training officer or the other 13 officers trying to locate these personnel. Assistance Group personnel indicated that they made only minimal observations on the use of personnel trained under the International Military Education and Training Program.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Chief, Joint U.S. Military Assistance Group-Philippines:

1. Try to obtain accurate, complete, and timely reports regarding personnel trained by the International Military Education and Training Program.

2. Require that security assistance officers fulfill their job description requirement to observe the use of personnel trained by the International Military Education and Training Program and require them to document their observations.

MANAGEMENT COMMENTS

The Chief of the Assistance Group concurred with the recommendations and established October 1985 as a target date for requesting a 2-year history from the Armed Forces of the Philippines on the utilization of personnel trained under the International Military Educational Training Program. Also, Assistance Group personnel will be informed of the requirements to observe, during field visits, the utilization of personnel and to document their observations.

APPENDIX A

ACTIVITIES VISITED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (International Security Affairs), Washington, DC
Office of the Assistant Secretary of Defense (Forces Management and Personnel), Washington, DC

Unified Command

Headquarters, U.S. Pacific Command, Camp H. M. Smith, HI

Army

Headquarters, U.S. Army Western Command, Fort Shafter, HI

Navy

Headquarters, Commander in Chief, U.S. Pacific Fleet, Pearl Harbor, HI

Air Force

Headquarters, Pacific Air Forces, Hickam Air Force Base, HI

Defense Agencies

Defense Security Assistance Agency, Washington, DC
Joint U.S. Military Assistance Group-Philippines, Manila, Philippines

APPENDIX B

FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (International Security Affairs)
Assistant Secretary of Defense (Public Affairs)

Other Defense Activities

Director, Defense Contract Audit Agency
Defense Logistics Studies Information Exchange
Director, Defense Security Assistance Agency
Commandant, Defense Institute of Security Assistance Management
Commandant, Industrial College of the Armed Forces

Non-DoD

Office of Management and Budget

Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Subcommittee on Oversight of Government Management, Committee on Governmental Affairs
Senate Committee on the Budget
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations
House Committee on the Budget

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While initial feasibility studies involved little or no cost for NATO nations, the actual improvements could entail significant costs in some cases. The measures would be funded individually by the NATO countries involved.

The details of these compensatory measures are classified. DoD monitors Allied performance of these measures as well as NATO's Conventional Defense Improvement (CDI) program. Highlights of the CDI program and the Allies' efforts are included in several of the reports DoD provides to the Congress. When significant compensatory measures are achieved, they will be included in these reports.

Senator Leahy: Is it correct to assume that compensation as a backfill measure would require expenditures over and above past NATO expenditures (i.e., a net increase in defense expenditures rather than a shifting of funds)?

Secretary Shultz: Yes. If fully funded, the compensatory measures would entail a substantial additional increment of resources to be invested by NATO nations over and above those already commited to other Alliance-related and national defense requirements.

Senator Leahy: What does the U.S. realistically expect from its European allies given competing European domestic needs, economic conditions, and political realities?

Secretary Shultz: Of course, we recognize that, as a practical matter, resources available for Allied governments to invest in defense are constrained and that a host of urgent priorities compete for a share of these finite funds. Nevertheless, we expect that our Allies will make a good faith effort to fulfill the commitments they have undertaken regarding measures to compensate for possible diversion of U.S. forces to Southwest Asia.

We will continue to press the Allies for the fullest possible implementation of these compensatory measures. Many of these measures would have a direct impact on Allied efforts to correct CDI deficiencies, such as shortage of standing ground forces, improved manning, equipping and training of mobilizable forces, and sustainability. Implementation of these measures would thus greatly improve Alliance conventional defense capabilities even without an out-of-area deployment.

U.S. ASSISTANCE TO GREECE AND BASES IN GREECE

Senator Leahy: Greece is beginning to turn to suppliers other than the United States for its military equipment needs. Given that Greece is openly questioning whether U.S. base rights in that country should continue, what is the future U.S. assistance to Greece?

Secretary Shultz: Although Greece has purchased some military equipment from non-U.S. sources, we view this as the outcome of a competitive market in military sales and not as a signal to the U.S. on the future of our security relationship with Greece.

U.S. assistance to Greece is in the interests not only of Greece and the U.S., but also the overall security of NATO. Because of these factors, we expect to continue providing such assistance in the foreseeable future. We believe, of course, that such assistance should be provided based on a careful analysis of Greece's requirements within the framework of Alliance defense plans and U.S. budgetary considerations.

Senator Leahy: What are the prospects of continuing U.S./NATO access to Greek facilities?

Secretary Shultz: During my recent trip to Greece we had good discussions on the future of U.S. military facilities there. We did not come to a conclusion, but we did agree that a serious discussion of this question would take place in time to permit the orderly resolution of the issues well before December 1988.

REGIONAL PROGRAMS

Senator Leahy: The FY 1987 military aid request includes a number of proposals to supply civic action equipment and training, and coast guard training on a bilateral or regional basis. What is the reason for deciding whether a country will be offered aid on a bilateral or regional basis?

Secretary Shultz: The Africa Civic Action program is an attempt to steer small, less-wealthy African countries away from requesting sophisticated military items. We are attempting to show that there are large benefits to using small amounts of MAP money for military projects that have a high civic action payoff. Similarly, assisting several small navies within a region creates synergistic effects which enhance their patrolling and maritime enforcement capabilities.

All of the MAP funds under this regionally justified program are provided to countries on a bilateral aid basis and are notified to the Congress accordingly.

USE OF FMS CREDITS FOR COMMERCIAL PURCHASES

Senator Leahy: In recent years, the use of FMS credits to purchase equipment, training, and services via commercial contracts rather than on a government-to-government basis has resulted in abuse of the system. The NORDAC contract in El Salvador and the Amworld contract in the Philippines are two examples of the problems associated with thses commercial contracts. How extensive is this problem? Please provide a list of contracts that are regarded as being problems and what action is being taken to resolve the problem.

Secretary Shultz: The following is a list of direct commercial contracts that have been financed with FMS loan funds which are considered problem contracts:

Date Funding Approved	Contractor	Country	Contract $ Amount	Item
March '83	Armworld	Philippines	$17.143M	Microwave System
July '83	Digital Contractors	Philippines	$ 8.248M	Telephone Switching Equipment
July '83	Telecom Satellite of America	Philippines	$ 2.423M	Radio Equip
July '83	NORDAC	El Salvador	$ 4.78 M	Ammo & Field Equipment
July '83	G&J Exports,	Honduras	$ 2.2 M	Patrol Boat
Jan '84	Springfield Armory	El Salvador	$ .66 M	G-3 Rifle Barrels

From March 1983 to present over 600 commercial contracts have been approved for FMS financing. All of the known problem contracts were approved prior to the issuance of specific policies and guidelines for FMS loan financing of direct commercial contracts by the Defense Security Assistance Agency (DSAA) in July 1984. These policies have been revised several times and the current policies incorporate several suggestions that resulted from a detailed analysis in 1985 of DSAA contract review procedures by the Department of Defense (DOD) Inspector General.

There were two common areas which led to abuse with all of the known problem contracts: (1) the contractors received large advance payments and (2) the contractors were firms which had no prior contracts with the DOD. DSAA current policies allow advance payments only to the extent that the contractor has already incurred costs, plus termination liability for the first 90 days following funding approval, as certified by the contractor. Contracts with firms which do not have prior DOD contracts require additional justification from the purchasing country. Also, a preaward survey of the contractor is performed by the Defense Logistics Agency in many such cases. This survey investigates the ability of a firm to perform under a given contract with respect to technical, production, quality assurance and financial capabilities.

Development of the FMS credit guidelines, which proved extensive coverage and review procedures beyond the two circumstances mentioned previously, has been a major step toward reducing fraud, waste, and abuse. It is our view, however, that there remains a greater potential for abuse in financing direct commercial contracts than in financing sales made through the Foreign Military Sales program. In the former case, the contractual parties are the U.S. contractory and the foreign country involved. In the latter case, the contractual parties are the U.S. contractor and the U.S. Department of Defense with procurements conducted under the guidelines of the U.S. Federal Acquisition Regulations.

USE OF MAP FUNDS TO FINANCE COMMERCIAL CONTRACTS

Senator Leahy: The Congress is being asked by vendors to amend the legislation to allow MAP grant funds to finance commercial contracts. Does the executive branch approve or disapprove of this proposal? What does it consider as being the advantages and disadvantages of the proposals?

Secretary Shultz: Under present statutory limitations, MAP funds may be used only to finance FMS transactions, and are not authorized for use in funding commercial contracts. Since it is our firm belief that this arrangment best serves the interest of the U.S. Government and the foreign government, the Administration would strongly oppose any effort to change existing law to allow MAP to be used to fund commercial purchases.

By keeping MAP-financed sales in the FMS channel, we are able to work directly with the recipient country to identify valid defense requirements which are consistent with U.S. interests and objectives as well as its own. Moreover, U.S. government participation in program development and implementation permits control over commitments to future financial difficulties during implementation. While after-the-fact review is made of commercial contracts submitted for U.S. financing, the extent to which prior consultative planning can be done in conjunction with commercial sales is very limited.

The following points explain why we limit MAP to FMS purchases while we allow FMS credit funding to be used for commercial puchases:

-- Counties which receive MAP are generally the countries which are least capable of assembling the procurement expertise necessary to engage in successful direct contracts with U.S. suppliers. Therefore, there would be increased likelihood of fraud, waste and abuse if MAP funds were allowed for the financing of direct commercial contracts.

-- The fact that countries must pay back FMS loans is a consideration in the latitude that countries should be given in the choice of purchase arrangements (e.g, FMS versus commercial).

-- DOD is held fully accountabe for the use of MAP appropriations to fund security assistance goals. Since these funds are grants rather than loans to countries, we must discharge this accountability in a manner which will ensure that the dollars are wisely and economically spent.

In addition, the present arrangement benefits both U.S. interests and those of the recipient country:

-- The Security Assistance Organization works directly with the host country to identify valid defense needs consistent with U.S. interests and objectives.

-- Based on this joint planning, FMS cases are developed based on mutually-agreed requirements, including required training, integration of equipment into existing forces, and provision of needed maintenance and support.

-- U.S. Government participation in program development and implementation permits control over commitments of future financial obligations, thus reducing the posibility of financial difficulties during implementation.

-- While after-the-fact review is made of commercial contracts submitted for U.S. financing, the extent to which this type of prior consultative planning can be done in that area is limited.

-- The close government-to-government relationship inherent in FMS program development also provides needed assistance to recipient countries in purdently managing their limited resources, thereby maximizing the cost-effectiveness of their acquisitions.

Limiting the use of MAP to the FMS arena makes the advantage of the FMS system available to those countries in greatest need of its benefits:

-- The assurance that a major hardware acquisition will be a complete package program, including all the requisite training and support elements properly scheduled to ensure effective operation and maintenance of the equipment once delivered.

-- Easy and efficient scheduling of required training at U.S. military schools and training facilities.

-- Maximum use of economies of scale in procurement to reduce costs and maximize value of MAP funds.

-- Maximum use of standardized equipment which makes follow-on support from U.S. resources readily available.

-- Protection to the purchaser of the U.S. procurement community's knowledge and experience in contracting and in selecting reliable sources for production.

-- Possible availability of U.S. transportation services if needed to expedite delivery.

CUSTOMER RELATIONS TEAMS

Senator Leahy: The FMS program includes a 3 to 5 percent fee on FMS transactions to cover administrative costs. One of the program services being funded from the proceeds of the administrative fees are Customer Relations Teams (CRTs). CRTs have been deployed to the Philippines on an almost monthly basis for over the last year, a travel rate much higher than for most other countries. Additionally, the activities of the CRTs appear to be those generally conducted by military assistance teams funded out of the security assistance funds for that specific country. What is the legal basis for funding CRTs from the administrative fee? Why isn't this activity shown as security assistance provided to these countries? Also, U.S. Army and Air Force logistics teams are performing similar activities in the Philippines as the CRTs and are being funded from the administrative fee proceeds. Please answer the above questions for these teams.

Secretary Shultz: With regard to the question "what is the legal basis for funding CRTs from the administrative fee?", our review of the activities of these teams shows that most of their effort is liaison work that is properly charged to the administrative budget per section 21(e)(1)(A) of the Arms Export Control Act as implemented by the guidance provided in Department of Defense Instruction (DoDI) 7290.3 "Foreign Military Sales Financial Management Manual" and by DoD 5105.38M the "Security Assistance Management Manual (SAMM)."

The chief function of these teams is to represent the military departments in the field, to report significant complaints concerning program implementation problems or sub-standard performance, to facilitate mutual understanding, exchange information, and in general do what they can to assure that the FMS customer is satisfied. They conduct quarterly reviews of the FMS program to ensure that the articles and services ordered by the countries are being provided in a satisfactory manner. We believe this approach greatly enhances the quality of support provided to FMS customers and the reputation of the U.S. Government as a reliable partner.

Concerning the second question, "why isn't this activity shown as security assistance provided to these countries?" We believe that the liaison effort being conducted by the CRTs is not "assistance" such as that provided by the MAP, IMET, or FMS credit program funds. Functions being performed are part and parcel of effective administration of the overall FMS program, for which the 3% to 5% administrative fee is applied to all FMS cases.

The CRTs have been deployed to the Philippines quite often in the past year, but only slightly more often than to other Asian countries such as Thailand, Pakistan and Korea. At least four of the seven visits made to the Philippines in the last 13 months have been for regularly scheduled quarterly program reviews. Because of the size of its program with the Philippines, the Army in particular has emphasized efforts to improve the quality of interface between the Philippine military and U.S. Army supply and maintenance systems and procedures by use of the CRTs. Most of the visits are aimed at resolving specific equipment delivery and discrepancy problems that JURMAGPHIL may not be able to devote sufficient attention to because specialized knowledge may be needed and the required additional manhours of effort are not readily available.

OIL PRICE IMPACT ON SOUTHWEST ASIA, MIDDLE EAST AND EAST AFTRIC DEBTOR COUNTRIES

Senator Leahy: A number of countries in Southwest Asia/ Middle East/East Africa areas are having economic difficulties. In large measure these countries' economies are affected by oil supply and demand. With respect to the regional economy and especially whether certain countries (i.e. Israel, Egypt, Pakistan, Jordan, Turkey and the Sudan) which have large debt burdens to the U.S. and are in danger of defaulting, what remedial action (such as rescheduling) does the administration foresee, at what cost to the U.S. and at what risk?

Secretary Shultz: The sharp decline in oil prices over the past six months is creating economic opportunities and problems for the developing world. Those countries which import oil stand to benefit substantially from falling prices. Cheaper oil will help to restrain inflation, spur economic growth and, importantly for heavily indebted countries, improve their trade balance. For most developing country oil exporters, however, cheaper oil has resulted in a sharp decline in both national income and export earnings. Clearly, some of these countries are facing severe economic difficulties which affect their ability to service their foreign debt obligations.

The Middle East region, which depends heavily on oil exports, has experienced the largest decline in revenues. Here the oil price decline is not only affecting the oil exporters. Many non-oil exporting countries are also affected because they receive substantial income from nationals working in oil producing countries. With the decline in oil revenues, these remittances will also fall off. Egypt, in particular, is vulnerable to the dual impact of falling oil revenues and remittances from national working in other Middle East countries. Although not an oil exporter, Jordan depends significantly on worker remittances and other assistance from oil producing countries. As a net oil importer, Israel should benefit substantially from lower oil prices. For Turkey, a country which borders on the Middle East, the overall economic impact is likely to be positive although it has substantial trade with neighboring oil producing countries Iran and Iraq.

East African and Southwest Asian countries are net oil importers. As regions, they will also benefit from lower oil prices. However for some non-oil producing countries, such as the Sudan, the internal economic problems and debt burden are already so severe that oil price decline will provide only marginal help. In October 1985, Treasury Secretary Baker outlined an enhanced approach to dealing with developing countries with severe debt problems. It calls for increased financial assistance to debtor countries from banks and international financial institutions (i.e. the IMF and World Bank) on the condition that debtor countries will undertake internal economic reforms. We are now examining how this approach could apply to debtor countries on a case-by-case basis. We are also pleased that the IMF has recently created the Structural Adjustment Facility which is designed to support economic policy reforms in the poorest countries.

Where countries are in imminent risk of default on their debt, the U.S. will reschedule payments but only in a multilateral forum to ensure equitable treatment of all creditors. We also insist that IMF member countries first seek a stand-by agreement which outlines economic policy reforms and benchmarks of progress in implementation. Rescheduling, of course, can involve substantial immediate cost to the U.S. Treasury in terms of deferred payments. But over the longer term, it offers better prospects for full repayment of loans extended. We also looking at other ways to help heavily indebted countries to avoid default. Overall, lower oil prices are having a positive effect on the developing world and its ability to service foreign debt. While the debt problem of certain oil-producing countries have worsened by changes in the oil market, we believe that the problems are manageable if both creditors and debtors approach them in a cooperative and responsible manners.

USE OF O&M FUNDS FOR MILITARY EXERCISES

Senator Leahy: In June 1984, the Comptroller General issued a decision on the use of operations and maintenance (O&M) funds for exercises which said in part that O&M funds could not be used to perform security assistance functions and where such funding had taken place the O&M account must either be reimbursed or an Antideficiency Act violation must be reported. DoD subsequently reimbursed the O&M account for certain unauthorized expenditures in Honduras, the country use as the example for the decision. However, the decision applied to the expenditure of O&M funds on a worldwide basis. What actions did DoD take to review its worldwide exercise program with respect to complying with the Comptroller General decision? What reimbursements were made to O&M accounts (specify for what activities and the costs)? What Antideficiency Act violation reports were filed (specify for what activities and the value of the violation)? If no review was made, specify the legal and policy basis of deciding not make a review and thereby comply with decision.

Secretary Shultz: The exercise programs have been carefully monitored to ensure compliance with applicable laws and regulations, including the Comptroller decisions of June 1984 and January 1986. The Comptroller General decisions were centered on activities in Southern Command, and more specifically, in Honduras. Few, if any, of the decisions were applicable to exercises in other commands because the types of activities investigated were not being conducted by those commands. Nevertheless, the decisions and advice pertaining to the Comptroller General's decisions were relayed to all unified commands. Discussion between these commands and DoD personnel has subsequently taken place on the effect that the decisions might have on inclusion of military construction, humanitarian assistance, and/or military training in future exercises.

With respect to reimbursements, DoD made funding adjustments of $110,000 from military assistance funds to cover training activities in Honduras identified by the June 1984 decision as having been improperly financed from operational and maintenance (O&M) appropriations.

No Antideficiency Act violation report was necessary since the MAP funds were available to reimburse the O&M account.

PREPOSITIONING IN THE SUDAN

Senator Leahy: Before the recent coup d'etat in the Sudan, the United States was considering prepositioning war materiel in the Sudan and arranging for use of certain facilities. What has happened with these plans since the coup? Is any U.S. prepositioned war materiel in the Sudan? If so, what and where? What are the terms and conditions of U.S. use of Sudanese facilities--if any?

Secretary Shultz: The issue is under review in the light of elections and the formation of the new government in Sudan April 30.

PROPOSED MILITARY ASSISTANCE TO GABON

Senator Leahy: The FY 1987 military aid request includes a proposal to assist in the establishment of a mobile reaction force in Gabon. In the past, the French Government has provided such forces at the request of the respective African government. Why is the U.S. government becoming involved in an area that it has long regarded as being a French responsibility? How does the U.S. government view this proposal?

Secretary Shultz: The United States has a number of military and economic assistance programs with Francophone countries in Africa. In these cases, we acknowledge that France is the pre-eminent foreign power and has treaty and moral commitments to come to their defense. Nevertheless, the US has bilateral interests in many of these countries, including Gabon. We also have an interest in demonstrating support for these moderate, pro-Western states. The type of assistance we are requesting for Gabon is FMS treasury rate credit.

Senator Leahy: Has this involvement been requested by the French and Gabonese governments?

Secretary Shultz: Gabon is in the process of upgrading and modernizing its armed forces and does not want to be dependent on just one supplier (France). It wants to have a relationship--including a military one--with the United States. We consult regularly with the French on US involvement with Francophone nations and the French welcome our participation, including in the military area.

Senator Leahy: Does the Gabonese government view this proposal as just an arms sale or as including a commitment to provide military forces on request as the French have done?

Secretary Shultz: The US provision of FMS credits and subsequent sales of military equipment does not imply a commitment by the US to provide military forces to Gabon. This is fully understood by the Gabonese and the French.

U.S. AID TO FORMER COLONIES

Senator Leahy: The FY 1987 military aid request includes proposals that in the past have been provided by their former colonial governments, for example the provision of civic action or coastal patrol equipment and training. Given these African countries' political ties to their former colonial governments, why is the U.S. government proposing to conduct these programs?

Secretary Shultz: The Civic Action Program for Africa provides an excellent opportunity to strengthen ties with local military establishments while promoting nation-building activities. We see the program as a means for encouraging greater attention to constructive activities by armed forces that do not face immediate threats--tapping an underused resource, as it were. The kinds of projects that we have undertaken with African military forces (such as building schools and clinics) contribute directly to socio-economic development. Moreover, our African Coastal Security initiative promises to help littoral states make more effective use of maritime resources, especially fish stocks, which are being plundered by foreign trawlers, most notably those of the Soviet Distant Water Fleet.

While, in most cases, we are not the primary provider or a major source of military assistance to these states, the U.S. has a bilateral interest in demonstrating support of and encouraging these kinds of activities. Where the former colonial power has an interest in these projects, we of course consult with them and welcome a symbiotic relationship. Nonetheless, all these projects serve to enhance our bilateral relationships and, in many instances, reflect a uniquely "American" approach.

EL SALVADOR: CIVIL DEFENSE

Senator Leahy: Depending on which administration source is quoted, somewhere between one-third to three-quarters of the Salvadoran military is involved in the defense of static positions. It is recognized that to successfully combat the insurgency, an effective civil defense program must be developed in order to release a larger portion of the military to combat the insurgency. Reports over almost the last year indicate that U.S. support efforts to develop a civil defense force have largely failed or have been scaled back to be ineffective in terms of releasing large segments of these troops for combat. Without an effective civil defense program, is there any possibility of the Salvadoran Government militarily defeating the insurgents (specifiy under what conditions this could take place)? How much has the U.S. spent to date on the development of a civil defense force in El Salvador? How much is projected to be spent in FY 1987 and future years?

Secretary Shultz: Civil defense (CD) remains a high priority, not only for the defense of muncipalities but also as part of the restoration of local government (ultimately these duties will be carried out by rural police). Talks with municipal officials throughout El Salvador, with the High Command, and with military field commanders indicate a growing appreciation of the need to adequately train and equip CD volunteers and to ensure good communications and rapid response

to calls for assistance from CD units under fire. CD will not free field commanders completely from local defense. However, development of local CD capability to hold off attack and call in reinforcements should sharply reduce the manpower required to defend municipalities, while improving their defense, and will greatly complicate insurgent planning and operations. Although it would be possible to defeat the insurgents without a CD system by wearing away their will to fight and their capacity for resupply through large sweeps and small unit operations, the task would be very much more difficult.

CD units are organized by municipality, among part-time volunteers, in coordination with a supervisory municipal committee. More than 90 new CD units have been established, most in San Vicente, Usulutan, Cabanas, and La Paz departments, areas subject to insurgent activity. Within these CD units, success has been uneven. Virtually all have some trained personnel and some equipment; for virtually all, however, training and equipment needs are not fully met. Another 25 units have been trained but not yet provided weapons; 23 units are in training now. We expect 70 more new CD units to be in place this year. Supply of weapons, a problem in the past, is now being addressed.

A two-man U.S. Military Group team has been in El Salvador for the past 24 months working on CD training and provision of equipment. We have budgeted $1 million for CD in FY 1987.

EL SALVADOR: A-37 AIRCRAFT

Senator Leahy: The 1982 delivery of A-37 aircraft to the Salvadorans responded to U.S. political needs to support the Salvadoran military following an insurgent attack. While the A-37s filled a military requirement, they also reflected the political limitations of the time that precluded the provision of gunships. Since then, conditions have changed and helicopter and airborne gunships have been provided. In 1984, a DOD-organized panel, which included the former U.S. commander of the largest A-37 force to operate in Southeast Asia, reviewed the military aid program to El Salvador. Included in its report was a recommendation that gunships rather than A-37s be provided to El Salvador. Given the panel's view that A-37s are better suited for conventional wars and gunships for insurgencies, why is the administration continuing to purchase A-37s as outlined in the FY 1987 budget request?

Secretary Shultz: We continue to believe that A-37s provide an important capability to El Salvador. Debriefings of insurgent defectors and prisoners repeatedly have indicated that the A-37 is a potent and feared weapon. There is a tactical advantage to having a mix of weapons systems with different characteristics, so that the best option can be selected to meet a specific need. The A-37 combines reliablility and rapid response with physically and psychologically effective firepower. Because of the aircraft's

effectiveness and frequent use, A-37 pilots are closely monitored to ensure that they are conforming with President Duarte rules of engagement for aircraft; in spite of allegations to the contrary, we have not found any willful or systematic violation of those rules of engagement, though errors have occurred on isolated occasions. As indicated in the FY 1987 budget request, we had planned, in response to a Salvadoran request, to provide additional A-37s this year. Competing priorities and the unavailability of the aircraft in the U.S. inventory, however, will require indefinite postponement.

EL SALVADOR: MILITARY ASSISTANCE FOR SUSTAINMENT

Senator Leahy: Since FY 1981, the U.S. has provided the Government of El Salvador over $650 million in military assistance. For FY 1987, an additional $136 million has been requested. The supporting statements for this request indicate that most of these funds would support sustainment of Salvadoran military operations. What is the breakout of how these funds will be spent? If this is the level of U.S. military aid required to sustain operations this year, how does it compare with sustainment costs in prior years as compared with force levels? Is this the level of military aid to sustain them in the future and if not what specifically will change the levels?

Secretary Shultz: Of the $86 million in sustainment costs projected for FY 1987 MAP, more than one-third is ammunition; the rest is spare parts and replacement gear, mostly for consumables and other items used by ground troops. These costs do not include replacement of major assets (e.g. aircraft), training, communications equipment, or medical assistance. For FY 1987, the Embassy estimates that such maintenance of the Salvadoran military capacity, without needed improvements, will require at least $107 million of the $136 million request.

It is not possible to draw a precise correlation between force level and sustainment costs, or to predict the insurgent threat that must be met. In FY 1985, all Salvadoran forces, including the Public Security Forces, numbered between 40,000 and 50,000; sustainment costs that year were approximately $71 million. Since then, troops strength has climbed to about 51,000; sustainment costs are expected to rise to about $75 million in FY 1986 and $86 million in FY 1987.

Sustainment costs are a function of many variables, including the percentage of the force structure fully trained and ready for combat, the level of operations, the mix between static defense and more active tactics, and the need to counter the insurgents' initiatives in whatever form they may take. Major operations such as Operation Phoenix utilize equipment at a rapid rate because they involve both air and ground forces for an extended period. Small unit patrolling requires a rapid

response capability and more communications gear. More active patrolling and insurgent use of land mines have increased Salvadoran military casualties but, because of our medical assistance, fatalities are down. Military assistance to help the Public Security Forces counter the insurgent terrorist threat has substantially increased the number of Salvadoran national security personnel who can receive our assistance.

We base our budget request to Congress on what we believe is necessary to help El Salvador prosecute the war against the insurgents and defend its emerging democracy, whether this involves provision of training, major assets such as aircraft, or sustaining support.

BENEFITS OF U.S. MILITARY EXERCISES

Senator Leahy: Since 1983, U.S. military forces have conducted exercises in Honduras on an almost continuous basis. While serving U.S. foreign policy needs, the exercises have also benefited the Honduran military. For example, Honduran airborne forces have been able to exercise at unit strengths far in excess of what they could if limited to their own airlift capability. The same is true of other units which appear to have the primary responsibility for counter insurgency activities in Honduras. Have these exercises created a Honduran military dependency on U.S. military forces in order to perform Honduran military responsibilities?

Secretary Shultz: U.S. military exercises are conducted primarily for the training and operational experience received by U.S. forces. Host country forces, such as those of Honduras, clearly benefit from the opportunity to improve their professional skills and to enhance their interoperability with U.S. forces. We do not believe that the combined exercising of U.S. and Honduran forces creates a Honduran dependency of the U.S. To the contrary, combined exercises enhance the capabilities of the Honduran Armed Forces to defend Honduras.

Senator Leahy: If they have, specify the extent of U.S. support the Honduran military will require to conduct its military operations. If they have not, explain your response in terms of prior and projected threats that the Hondurans have met or will be required to address.

Secretary Shultz: The implicit question is whether U.S. military assistance may be necessary to enable the Government of Honduras to respond to the military threat which it faces. The Honduran Armed Forces number approximately 16,000 troops. Although currently attempting to modernize its forces, Honduras suffers from inadequate mobility, firepower, air defense, and communications. For many years, Honduras' role in the Central American balance of power has relied on the air superiority provided by its now-aging Super Mystere fighter aircraft.

The current security threat to Honduras is posed by Sandinista Nicaragua. The Nicarguan military numbers approximately 60,000, supported by militia and reserve forces of another 60,000 men. Nicaragua has undertaken a massive military buildup since 1979, marked by the introduction from the Soviet Union of substantial quantities of armor, artillery, rocket launchers, and helicopters, including the sophisticated MI-24 HIND helicopter gunship.

The United States is committed to assist Honduras to defend its national sovereignty and territorial integrity. The fact that Honduras may require U.S. military assistance to repel Sandinista aggression is a function of the disproportionate and unnecessary military buildup undertaken by the Sandinistas. It is not the product of combined U.S./Honduran military exercises.

GUATEMALA: MILITARY AID

Senator Leahy: The new President of Guatemala has said that his country needs economic, not military aid. You are asking for $10.5 million in military aid for Guatemala. Do we really have to spend $10 million on aid we're not even being asked for?

Secretary Shultz: By letter to the President of February 11, 1986, President Cerezo formally requested that the Administration proceed with the certification process necessary for Guatemala to receive non-lethal military assistance later this fiscal year. He has indicated his intention to provide us with a list of needed equipment shortly. In view of Guatemala's economic situation we plan to provide grant aid (MAP) rather than credit as indicated in the presentation to Congress; the amounts will be modest. President Cerezo has also asked to be included in the Anti-Terrorism assistance program this fiscal year.

President Cerezo's foremost priority is to obtain international balance of payments support and development assistance to enable him to improve Guatemala's severe economic situation and to address the development problems and economic inequities that are at the root of Guatemala's social strife. To assist Guatemala economically in FY 86, we anticipate providing $35 million in development aid, about $19 million in food assistance, and approximately $48 million in balance of payments support, which is an increase of $23 million over the original administration ESF request. We are asking for increased economic aid levels for FY 87 for Guatemala and the same level of military assistance.

A.I.D. AND POLICY REFORMS

Senator Leahy: Based on the recommendations of the 1984 report of the National Bipartisan Commission on Central America (NBCCA), the Administration requested and the Congress appropriated large increases in economic assistance for Central America over the past 2 years. In fiscal year 1985, development and Economic Support Fund assistance totaled over $1 billion including about $300 million in fiscal year 1984 supplemental funds. For fiscal year 1986, the Agency for International Development (A.I.D.) requested $869 million in economic assistance for the region. A.I.D. is spending most of these funds on promoting economic stabilization and creating a basis for long-term growth.

A GAO report (NSIAD-85-82), completed in July 1985 stressed the importance of economic policy reforms in Central America. To what extent has A.I.D.'s balance-of-payments assistance influenced the Central American countries to make policy reforms -- particularly with regard to exchange rates?

Secretary Shultz: We believe our efforts to promote policy reforms have been quite successful. Countries in the region have substantially improved the prospects for growth by promoting nontraditional exports, reducing fiscal deficits, and eliminating impediments to private investment.

Regarding exchange rates, I would first note that changes in exchange rates are no panacea for economic policy problems in Central America or elsewhere. Exchange rate changes are usually indicated, however, where internal inflation -- usually due to large unfinanced fiscal deficits -- has caused the country's exports to lose their competitiveness. Such changes, however, need to be coordinated with fiscal and monetary policies so that a devaluation/inflation spiral does not result.

Partly due to A.I.D.'s efforts, favorable changes in exchange rates have been made in several countries in Central America. Costa Rica, after a major realignment in 1983, has maintained a floating exchange rate at a level that maintains the competitiveness of its exports. Belize has taken internal steps to reduce the fiscal deficit and obviate the need for a devaluation. El Salvador devalued its currency in early 1986, and the new Government of Guatemala has announced its intention to do so soon. In both of these cases, the adjustment appears broadly to restore competitiveness.

Honduras has not altered its exchange rate despite some loss of competitiveness, but the new government is now examining alternative means of restoring it. This might include devaluation, but might instead involve a combination of more restrictive monetary policy and structural changes in the economy.

GOVERNMENT OF HONDURAS' ECONOMIC POLICIES

Senator Leahy: How does A.I.D. plan to improve its influence over the Government of Honduras' economic policies? If the Government of Honduras continues to resist exchange rate reform, how will this affect the Honduras economy and U.S. economic assistance policy toward that country?

Secretary Shultz: The previous Honduran Administration avoided serious consideration of exchange rate adjustments. In our view, this has meant that Honduran exports suffered significant losses as they became less and less competitive in world markets. Recently, the impact of an overvalued currency on Honduras' balance-of-payments has been ameliorated somewhat by higher coffee prices and lower oil costs. The period of modest growth spurred by increased coffee earnings, however, is expected to be relatively short.

Our balance-of-payments assistance will continue to be linked to Honduran efforts to provide a policy framework for economic stabilization, recovery, and growth. We are currently engaged in detailed discussions with the GOH on a stabilization program that would serve as the basis for our FY 1986 ESF assistance. We have agreed that the program will address: (1) the importance of the trade-off between GDP growth and the accumulation of international reserves, (2) the crucial importance of maintaining fiscal discipline, (3) the need to enforce strict limits on net domestic credit expansion overall and especially to the public sector, (4) the need to reduce the size of the public sector, and (5) the desirability of increasing private sector participation across all sectors.

ECONOMIC GROWTH IN CENTRAL AMERICA

Senator Leahy: To what extent have the Central American countries receiving U.S. assistance achieved the economic growth targets suggested by the National Bipartisan Commission on Central America (6 percent annual average real growth)? What was the total economic growth for the region in 1985? How does this compare with 1984?

Secretary Shultz: I would first note that the 6 percent goal established by the Commission is to be achieved by 1989, following implementation of a five-year program of high-level assistance. Reaching the 6% target may still be possible, though it now appears more likely that substantial aid beyond 1989 may be needed. A number of imponderable factors -- level of insurgency, economic policies, world economic growth, the extent of protectionism by industrial countries, world interests rates -- will have a major influence on actual achievement.

Central American economic growth in 1985, according to our most recent estimates, was 1.0%, down from 1.6% in 1984, but a substantial improvement over the negative rates of the prior three years. The 1985 growth was somewhat slower than we anticipated, due primarily to a decline of 1.3% in Guatemala, which underwent a period of uncertainty prior to the election late in the year of a new democratic government. Continued insurgency, lower than anticipated levels of commodity prices and capital inflows, and some shortcomings in economic management were also factors. Nevertheless, we expect 1986 growth for most countries of the region to be in the 2-4% range, which is consistent with achievement of 6% growth by 1989.

Senator Leahy: Is the limited economic growth achieved over the past two years due primarily to the infusion of A.I.D. Economic Support Funds? What self-sustaining growth, if any, has occurred?

Secretary Shultz: U.S. assistance has been important to the improvement in the economic growth rates in Central America, but economic stabilization measures undertaken by Central American governments have also been of key importance. We believe that continued U.S. assistance over the next several years will be required to lay the basis for self-sustaining growth. Such growth will require the development of nontraditional exports and a recovery of private investment, as a result of improved government policies.

We believe that substantial progress is being made in the proper direction. The economic policy framework has improved over the past two years in nearly every country, and exports of nontraditional products from the region to the United States increased by more than 50% between 1983 and 1985. Continued efforts are needed, as well as sustained high levels of U.S. assistance, to carry this structural adjustment process to its completion.

Senator Leahy: Given the limited economic growth achieved to date, has A.I.D. revised the growth goals outlined in its FY 1985 and FY 1986 Congressional Presentations (6 percent growth within 6 years)? What economic growth rates can realistically be expected over the next 4-6 years?

Secretary Shultz: Reaching the 6% target may still be possible, though we are less optimistic now than when the Initiative was begun. It may be that continued assistance beyond 1989 will be required.. A number of imponderable factors -- level of insurgency, economic policies, world economic growth, the extent of protectionism by industrial countries, world interests rates -- will have a major influence on actual achievement.

At the present time, we consider prospects for steadily increasing economic growth that reaches an annual rate of 6% by 1989 to be good for Costa Rica, Belize, and possibly Panama, although the prospects for the latter are more uncertain. The first two have taken major policy steps to reorient their economies toward exports and toward an increased role for the private sector, and Panama appears to be moving in this direction.

For El Salvador, we doubt that the target can be achieved without an end to the insurgency. With continued insurgency, growth in the 2-4% range may be the best that can be achieved.

Prospects for Honduras cannot be gauged at this point because of uncertainties about future economic policies that will be pursued by its newly-elected government. We consider the acceleration of growth to around 6% by 1989 still achievable if appropriate economic policy steps are taken soon.

Guatemala's new government has announced a comprehensive stabilization program, which, if fully implemented, will be a major step toward achievement of the conditions for rapid growth, although there are some elements which we still have under discussion.

EXPORTS UNDER THE CARIBBEAN BASIN INITIATIVE

Senator Leahy: Did the Central American countries included in the Caribbean Basin Initiative (CBI) increase exports in 1985? What percentage increase/decrease was there for each country? How do export figures compare between Central American CBI countries and their Caribbean counterparts?

Secretary Shultz: The following tables provide data for both total exports and manufactured exports to the United States. Since exports of most primary commodities are heavily determined by world market conditions, and were already duty-free prior to the CBI, it is in the manufactured-goods category that the main impact of the CBI should be felt.

CBI COUNTRY EXPORTS TO THE UNITED STATES

	($ MILLION)			PERCENT CHANGE		
	1983	1984	1985	83/84	84/85	83/85
Belize	27.3	42.8	47.0	56.8%	9.8%	72.2%
Costa Rica	386.5	468.6	489.3	21.2%	4.4%	26.6%
El Salvador	358.9	381.4	395.6	6.3%	3.7%	10.2%
Guatemala	374.7	446.3	399.6	19.1%	-10.5%	6.6%
Honduras	364.7	393.8	370.2	8.0%	-6.0%	1.5%
Panama	336.1	311.6	393.6	-7.3%	26.3%	17.1%
TOTAL	1,848.2	2,044.5	2,095.3	10.6%	2.5%	13.4%

CBI MANUFACTURED EXPORTS TO THE UNITED STATES
(SITC CATEGORIES 5-8)

	($ MILLION)			PERCENT CHANGE		
	1983	1984	1985	83/84	84/85	83/85
Belize	6.5	15.8	23.2	143.1%	46.8	256.9%
Costa Rica	102.4	134.4	166.5	31.3%	23.9%	62.6%
El Salvador	94.4	121.4	90.5	28.6%	-25.5%	-4.1%
Guatemala	14.6	27.6	28.2	89.0%	2.2%	93.2%
Honduras	37.1	39.2	45.5	5.7%	16.1%	22.6%
Panama	33.6	33.3	85.3	-0.9%	156.2%	153.9%
TOTAL	288.6	371.7	439.2	28.8%	18.2%	52.2%

As indicated by the first table, total Central American exports to the United States increased by 10.6% in 1984 and by 2.5% in 1985. The 1985 performance was substantially influenced by U.S. import restrictions, which led to a fall by almost half in Central American sugar exports to the U.S.

Manufactured exports were much more dynamic, increasing by 28.8% in 1984 and by another 18.2% in 1985. Belize, Costa Rica, Guatemala, and Panama all increased manufactured exports by more than 60% between 1983 and 1985, indicating that the strategy of export diversification is achieving positive results.

Central American exports, both in total and of manufactured goods, performed better than those of the Caribbean islands. Central American total exports rose by 13.4% between 1983 and 1985, while those of the islands fell by 33% -- due primarily to a dramatic decline in petroleum exports. For manufactures, Central American exports rose by 52.2%, while those of the islands rose by 46.7%.

Senator Leahy: Was Central American export performance for 1985 at the level that A.I.D. anticipated? If not, what are the reasons for this? Why hasn't the Caribbean Basin Initiative (CBI) legislation had more impact? Has A.I.D. established specific export goals with which performance can be measured?

Secretary Shultz: A.I.D.'s projections for nontraditional exports for the rest of the decade assumed that an annual growth rate of 18% was feasible. Measured against this standard, 1984 performance (28.5%) was substantially higher than expected, and 1985 performance (18.2%) was approximately on target.

Performance would have been even better but for several factors. First, the persistence of insurgency has resulted in continued uncertainty and limited interest in investment in the region. Second, limitations in the CBI legislation -- particularly the exclusion of textiles and shoes -- have closed off sectors where Central America has considerable potential to duty-free treatment.

Senator Leahy: What does A.I.D. plan to do in FY 1987 to improve Central American export performance?

Secretary Shultz: A.I.D. plans to continue the efforts now underway. Broadly, these include support for a macroeconomic policy environment, including appropriate exchange rates, that assures adequate incentives for exports, promotion of reform of bureaucratic impediments to exports, and numerous program interventions to provide the institutional, infrastructure, financial, and technical capacity for the Central American private sector to increase exports. I would note that many of these interventions are now in the gestation period and will begin to show concrete results by FY 1987.

Senator Leahy: How do current U.S. trade policies impact on A.I.D.'s export-led growth strategy for Central America?

Secretary Shultz: U.S. restrictions on imports of textiles, and the exclusion of textiles and shoes from the Caribbean Basin Initiative do adversely affect two sectors where Central America has considerable export potential. Similarly, the reduction in U.S. sugar quotas has sharply reduced Central American exports of that product to the United States. Sugar exports from Central America fell from $212 million in 1984 to $112 million in 1985.

Overall, however, U.S. trade policies have a very positive impact on the potential for export-led growth in Central America. The traditional openness of the U.S. economy and the benefits of the CBI provide substantial opportunities for countries that maintain a favorable policy environment. The counterpart of increased exports to the United States from Central America, of course, is reduced dependency on foreign aid and increased capacity to import U.S. products.

Senator Leahy: Why don't the Central American economies appear to be benefitting to a greater extent from the current economic boom in the United States?

Secretary Shultz: Certainly nontraditional Central American exports are benefitting from U.S. economic growth. Central American exports of manufactures to the United States rose by 52% between 1983 and 1985.

Nevertheless, the traditional export base of the region has been adversely affected by low, or even declining, prices that have far more than outweighed the positive effects of growth in nontraditional exports. Five products -- coffee, cotton, sugar, bananas and beef -- account for three quarters of the export earnings of the region. Our initial projections at the time of the Kissinger Commission report were that prices of these commodities would rise only modestly from their 1983 levels. In fact this has proven optimistic. Between 1983 and 1985, world prices for cotton fell by 32%, sugar by 52%, beef by 7%, and bananas by 11%. Until the sharp run-up over the past six months, coffee prices were also languishing at relatively low levels. Consequently, the overall impact of the world economic situation on the region has been quite negative over the past two years.

We are hopeful that 1986 may prove more favorable in this regard. Lower oil prices and lower interest rates will benefit the region significantly, and coffee prices, if sustained at current levels, will provide a substantial benefit. Because of accumulated arrears and heavy external obligations, however, these effects will only gradually begin to exert a positive influence later in the year.

Senator Leahy: How has A.I.D. reacted to the recent study by the Checchi Company which concludes that the need for short-term dollar credit for Central American exporters is not as great as A.I.D. originally believed? Don't the findings of this study call into question the need for many of A.I.D.'s bilateral trade credit programs in Central America as well as the Trade Credit Insurance Program?

Secretary Shultz: As a result of the study by the Checchi Company as well as lack of implementation progress, A.I.D. plans to deobligate $ 3.4 million of a loan to BLADEX for short-term export credit. In addition, A.I.D.'s Regional Office for Central American Programs (ROCAP) is planning a more in-depth study of credit demand in the region later this year. A.I.D. will, of course, take into consideration the findings of the Checchi report in reviewing any future request for short-term dollar credit projects in the region. At present, however, most of A.I.D.'s credit projects in Central America are for medium or long-term dollar credit.

While the conclusions of the Checchi report have relevance for the TCIP, it is A.I.D.'s view that more experience in implementing the TCIP is required to determine the degree of demand for the

program, which has encountered a number of procedural delays in participating countries unrelated to the question of demand. Towards the end of FY 1986, after additional experience with the TCIP has been obtained, A.I.D. expects to evaluate the program to determine the amount of TCIP authority required for the future.

Senator Leahy: If lack of available credit is not a constraint to increasing Central American exports, what are the constraints?

Secretary Shultz: Short-term credit does not appear to be a significant constraint to exports from Central America, but we consider the lack of availability of longer-term investment credit as a significant limiting factor. There are a number of other constraints to Central American exports, many of which our assistance programs are seeking to address. These include:

--Inappropriate economic policies. Some countries have a legacy of overvalued exchange rates, export taxes, and other impediments to export growth. Significant progress has been made over the past year or two in eliminating such policies, but further steps are needed in some countries.

--Military conflict and violence. This has been a serious impediment to new investment in export production in much of the region.

--Protectionist restraints by trading partners. In some cases, notably textiles and sugar, exports are limited by import quotas in industrial countries. The CBI legislation has provided increased access to the U.S. market for a wide range of products, but our declining quotas for sugar have had an adverse impact. Central American exports of sugar to the U.S. in 1985 declined by $100 million from 1984.

--Excessive government regulation. In some cases, exports are restrained by government paperwork requirements, or other regulations that make it difficult for firms to move quickly to respond to export opportunities. A.I.D. Missions have worked to identify and eliminate such bottlenecks.

SUCCESS IN IMPLEMENTING NBCAA RECOMMENDATIONS

Senator Leahy: To what extent has A.I.D. been successful in implementing the National Bipartisan Commission on Central America's recommendations for emergency stabilization?

a. establishment of a new multilateral organization to promote regional development;

b. involvement of the private sector in stabilization efforts;

c. addressing the region's external debt problems;

d. increasing bilateral economic assistance;

e. establishing labor-intensive infrastructure and housing projects;

f. providing trade credit guaranties;

g. providing credit to the Central American Common Market Fund;

h. the U.S. joining the Central American Bank for Economic Integration (CABEI).

Secretary Shultz:

a. A.I.D. and State have been carrying out a strategy designed to bring together potential Central American participants with senior U.S. officials to discuss the establishment of a Central American Development Organization (CADO). To date, we have:

. formed a working group made up of representatives of U.S. business and labor sectors as well as State and A.I.D.; the working group has developed a document describing the purpose and potential of CADO to be used in discussions with the Central Americans;

. instructed U.S. ambassadors in the area to discuss CADO with the chiefs of state of each of the eligible Central American countries and request they designate a person with whom we can carry out a dialogue on CADO;

. encouraged U.S. business and labor organizations to discuss CADO with their Central American counterparts;

. briefed staff members of the Senate Foreign Relations, Senate Appropriations, House Foreign Affairs, and House Appropriations Committees on the status of CADO.

An important element of the U.S. approach to CADO from the beginning has been to try to make CADO a product of the Central Americans' own initiative and avoid its becoming a "made in U.S.A." organization. Thus far, there has been no consensus among the Central Americans themselves for establishing a CADO because they are not yet convinced of its potential utility.

Because of these concerns, we have been proceeding carefully. In the next round of discussions with the Central Americans, we intend to explore in depth their attitudes and ideas regarding CADO. The conclusion of these discussions would be an appropriate time to conduct another series of briefings for interested members of Congress and Congressional staff.

b. Our efforts have been aimed at increasing the private sector's ability to compete in world markets and at raising its awareness of the need to do so. Programs are underway in each of the countries which provide the tools private entrepreneurs, large and small, need to exploit the advantages provided by the

Caribbean Basin Initiative (C.B.I.). Credit lines and guaranties are in place, and specialized technical, managerial and marketing assistance is helping local investors and producers to move into nontraditional exports. On the policy side, we are working with both the public and private leaders of the region to remove the disincentives to investment and revise tariff structures which for so long have nurtured non-competitive industries.

For the region as a whole, the ratio of private investment to GDP has fallen from 12.8 percent in 1980 to a low of 8.9 percent in 1983. This ratio recovered slightly to 9.5 percent in 1984-85. Security concerns and shortages of foreign exchange in several countries continued to have a dampening influence on investment. Nevertheless there is some early evidence that our stabilization and investment promotion efforts are being rewarded:

- The economic decline of 1980-83 has been reversed.
- Large-scale capital flight has been halted.
- Costa Rica, Belize, El Salvador, and Panama are carrying out economic stabilization programs that, among other things, are intended to increase investor confidence and incentives; Guatemala will initiate a major program in May, and Honduras is planning economic reforms.
- In Costa Rica, where economic reforms and investment promotion efforts were initiated earliest, the private investment to GDP ratio recovered its 1980 level by 1984, and nontraditional exports grew by an average of 33 percent over the past three years.
- Led by Costa Rican performance, the region increased nontraditional exports to the U.S. by more than 50 percent from 1983 to 1985.

c. The increased assistance available under the Central American Initiative has supported the efforts of the governments in the region to gain better control over their international debt problems. This progress, combined with the declining world interest rates observed over the past two years, should lead to a significant decline in the region's ratio of external debt to export earnings over the next several years.

d. Progress has been made in meeting the National Bipartisan Commission's (NBCCA) recommendation for increased bilateral assistance to Central America for emergency stabilization. We provided $1.367 billion to Central America, except Nicaragua, from FY 1984 Supplemental and FY 1985 appropriations, and have budgeted $895 million in FY 1986, for a total of $2.262 billion. Of this total, $1.550 billion or 69 percent has been in the form of balance-of-payments assistance. All the democratic countries in the region have put policies in place to reduce fiscal deficits, limit inflation, stimulate private business activity and promote exports of nontraditional goods. In El Salvador, stabilization efforts also aided displaced persons and provided for the restoration of damaged infrastructure and public services.

This USG financial assistance has contributed to stabilization objectives in the region. Democratically-elected governments committed to human rights improvements are in place in

every country except Nicaragua. The severe economic slide of the early 1980s has been halted and reversed in every country except Guatemala. Aggregate GDP for these six countries rose 1.5 percent in 1984 and 1.0 percent in 1985; growth of 2 to 4 percent is projected for 1986. Capital flight has also been been reduced significantly. Without U.S. assistance, these gains would not have been possible.

It should be noted that the $2.262 billion provided in FY 1985 and budgeted through FY 1986 is $538 million or 19.2 percent below NBCCA-recommended levels. This funding shortfall has been a limiting factor in progress towards our stabilization and recovery objectives in Central America, along with continued security problems, low world prices for traditional exports, and delayed action by several governments in taking necessary economic reforms.

e. Specific goals set in this area by A.I.D. in the FY 1986 Congressional Presentation were an increase of 25% in the rate of construction of low-income housing by 1989, and a 25% increase in the coverage of water and sewerage services by 1989.

A.I.D. is financing 48 separate activities related to housing and sewerage construction and other infrastructure such as roads, bridges, irrigation projects and energy. Examples of these activities include:

Belize:
An active $2 million housing guaranty program and a rural access roads and bridges program;

Costa Rica:
$39 million in active housing guaranty programs, $9 million in FY 1985 in ESF-related local currency allocations for housing activities, and a road construction program;

El Salvador:
$25 million in active housing guaranty programs, $6.5 million in FY 1985 in PL-480 and ESF-related local currency allocations for housing activities, public works programs for streets, sewers, and irrigation systems;

Guatemala:
Availability of a $10 million housing guaranty loan to the GOG, housing construction with a PVO, rural road construction, and rural electrification systems;

Honduras:
$35 million in active housing guaranty loans plus another $35 million in housing guaranty loans available to the GOH, $1.1 million in FY 1985 in ESF-related local currency allocations for rural housing construction, rural roads and sanitation systems projects;

Regional:
$10 million for community improvement activities for upgrading homes, streets, and water systems sponsored under PVOs through an A.I.D. grant to the Cooperative Housing Foundation.

The above activities and levels of development assistance have begun to demonstrate positive impacts in Central America in serving low-income families and promoting increased private sector participation in low-cost housing and infrastructure financing. For example: (a) 700 low-income families in Belize were provided home improvement loans by credit unions; (b) recuperation of Costa Rica's savings and loan system and construction sector activities have resulted in over 28,000 low-income families being provided housing, water, and sewage services; (c) slight increases in housing production in Honduras (5,248 units in 1984 to 5,344 units in 1985) and El Salvador in spite of depressed economic situations in both countries and civil war in the latter; and (d) 36,000 water and sewer connections made in El Salvador.

f. The National Bipartisan Commission on Central America (NBCCA) found that the decline in the availability of trade finance had critically affected the flow of imports into Central America and recommended the establishment of a Trade Credit Insurance Program to provide U.S. Government guarantees for short-term trade credit from U.S. commercial banks.

In implementation of this recommendation, the Administration proposed and Congress enacted the Trade Credit Insurance Program (TCIP) found in section 224 of the Foreign Assistance Act of 1961, as amended. On December 19, 1984, A.I.D. and the Export-Import Bank (Eximbank) signed an agreement for implementation of the TCIP.

For fiscal year 1985, Congress approved $300 million in TCIP authority. A.I.D. allocated $255 million as follows: $5 million for Belize; $100 million for Costa Rica; $25 million for Guatemala; $50 million for Honduras; and $75 million for El Salvador. (Panama determined that it had no need for the program.) Through March 31, 1986, Eximbank has issued insurance coverage totalling $150 million to Guatemala, Honduras, Costa Rica, and El Salvador.

Latest figures for confirmed letters of credit issued under the program show $20.1 million for El Salvador, $15.3 million for Honduras, $15.3 million for Costa Rica, and $1.5 million for Guatemala. Shipments against these letters of credit total $12.9 million for Costa Rica; $9.9 million for Honduras, $7.9 million for El Salvador, and $1.5 million for Guatemala.

For FY 1986, $250 million in authority was granted by Congress. No allocations of this authority have as yet been made.

g. Subsequent to the NBCCA Report, an A.I.D.-contracted study recommended against USG credits for the settlement of trade debts within the Central American Common Market (CACM). The study concluded that the arrearages were due primarily to misaligned exchange rates and the serious payments problems of Nicaragua, by far the largest single debtor within the CACM. Clearing current arrearages without being able to address these structural problems would only lead to further accumulation of arrearages. Accordingly, A.I.D. does not presently propose financial assistance to the CACM.

Under the leadership of President Monge of Costa Rica, Honduras, El Salvador, Guatemala and Costa Rica have begun work on a Central American Economic Initiative to revive trade among their four countries. The initiative would call for reconciliation and payment of outstanding trade debts, a new regional payments system, elimination of barriers to intra-regional commerce, and modification of the common external tariff of the CACM to encourage nontraditional exports. If this initiative is carried out effectively, there may be a role for USG financial assistance in the future.

h. It is U.S. Government policy that the United States not join subregional banks. However, A.I.D. is providing direct financial and technical assistance through a $50 million grant/ loan agreement signed with CABEI in September 1985. The project is financing infrastructure construction, credit to agribusiness and technical assistance and training to improve The Central American Bank for Economic Integration (CABEI) operations. Approximately $11.5 million has already been disbursed for a water supply system in El Salvador, road projects in El Salvador and Honduras, and a livestock facility in Costa Rica. The Bank is carrying out a major restructuring effort which should improve its operating capacity and efficiency.

On March 25, 1986, CABEI established an Economic and Social Development Fund to attract the participation of extra-regional countries. Mexico, Argentina, and the Dominican Republic signed a document stating their intention to subscribe to this Fund and join the Bank upon completion of the process of revising CABEI's charter to allow non-regional membership. CABEI expects several other Latin American countries to subscribe to the Fund this year and hopes to attract participation by several European countries as well.

STATUS OF CENTRAL AMERICAN DEVELOPMENT ORGANIZATION (CADO)

Senator Leahy: What is the status of negotiations to establish a Central American Development Organization (CADO)? Why have the Central American countries receiving U.S. assistance not responded more favorably to the establishment of CADO?

Secretary Shultz: A.I.D. and State have been carrying out a strategy designed to bring together potential Central American participants with senior U.S. officials to discuss the establishment of a Central American Development Organization (CADO). To date, we have:

. formed a working group made up of representatives of U.S. business and labor sectors as well as State and A.I.D.; the working group has developed a document describing the purpose and potential of CADO to be used in discussions with the Central Americans;

. instructed U.S. ambassadors in the area to discuss CADO with the chiefs of state of each of the eligible Central American countries and request they designate a person with whom we can carry out a dialogue on CADO;

. encouraged U.S. business and labor organizations to discuss CADO with their Central American counterparts;

. briefed staff members of the Senate Foreign Relations, Senate Appropriations, House Foreign Affairs, and House Appropriations Committees on the status of CADO.

An important element of the U.S. approach to CADO from the beginning has been to try to make CADO a product of the Central Americans' own initiative and avoid its becoming a "made in U.S.A." organization. Thus far, there has been no consensus among

the Central Americans themselves for establishing a CADO because they are not yet convinced of its potential utility.

Because of these concerns, we have been proceeding carefully. In the next round of discussions with the Central Americans, we intend to explore in depth their attitudes and ideas regarding CADO. The conclusion of these discussions would be an appropriate time to conduct another series of briefings for interested members of Congress and Congressional staff.

A.I.D. POLICY REGARDING CABEI

Senator Leahy: According to the NBCCA, revitalization of the Central American Bank for Economic Integration should be a cornerstone of A.I.D.'s efforts in Central America. Yet, the U.S. Government has decided not to join the Bank and other donors have not contributed to the Bank as anticipated. In light of these developments, what is A.I.D.'s current policy regarding support to the Bank?

Secretary Shultz: Due to a long standing policy of not joining subregional banks, the United States has not joined CABEI. Nevertheless we remain committed to strengthening CABEI's role in financing economic stabilization and recovery in the region. As direct evidence of that support and in response to the NBCCA recommendation, A.I.D. authorized a $50 million Regional Economic Recovery Project with CABEI in September 1985. The project will finance infrastructure construction, credit to agribusiness, and technical assistance and training to improve CABEI operations.

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Despite U.S. policy against joining subregional banks, we are continuing to use diplomatic channels to encourage others to participate in the Fund. The United States is hopeful that our large-scale project financing and the contributions of other countries will enable CABEI to play a more active role in assisting the countries of Central America to recover economically. The Bank has undertaken a major restructuring effort which should improve its operating capacity and efficiency.

TRADE CREDIT INSURANCE PROGRAM

Senator Leahy: A recent GAO fact sheet (GAO/NSIAD-86-29-FS), on the status of the Trade Credit Insurance Program, noted low program utilization and found that program controls may be inadequate. What does A.I.D. plan to do to improve utilization of and controls over the Trade Credit Insurance Program? Given the low utilization to date, is there a need for the program? Why did A.I.D. request substantial funds for a bad debt reserve in FY 1985 and then reprogram them for other purposes?

Secretary Shultz: A.I.D. and The Export-Import Bank (Eximbank) are providing information on the TCIP to all concerned parties to increase utilization of the program. For example, A.I.D.'s Mission in El Salvador has made visits to major private sector associations to introduce the program. Eximbank has held electronic dialogues with audiences in Guatemala, Honduras, and Costa Rica (including businessmen, bankers, and the press) to explain and answer questions concerning the TCIP. In Guatemala, the A.I.D. Mission followed the dialogue with a complementary briefing for the local press and business community. In Honduras, A.I.D.'s Mission sent out over 500 letters describing the TCIP including 110 letters to industrial companies with import needs, and has publicized the program through contact with the local Chamber of Commerce. A.I.D. is consulting with the Eximbank to see what additional steps might be taken to provide information to the private sector in Central America.

As the GAO fact sheet indicated, a very few items, representing a small percentage of all items shipped under the program, did not meet the TCIP program's criteria. To reduce the possibility of such incidents occurring in the future, A.I.D. instructed its participating Missions, by cable, to designate an officer to be responsible for the program and to assure itself that the Central Bank in that country takes appropriate measures to assure that all items shipped under the program conform to the program's established criteria. Our A.I.D. Missions will continue to monitor the implementation of the program and to take whatever corrective measures are required.

While it is true that utilization of the TCIP started slowly, it is our conclusion that the program is useful and should be continued. Any new program has delays in getting started and the TCIP was no exception. However, its utilization has increased. For example, as of mid-December the amount in confirmed letters of credit issued under the program totaled $26.6 million; by March 26, this figure had increased to $50.8 million. While the program in Guatemala has scarcely begun, we anticipate considerable activity there in the near future. El Salvador and Costa Rica have also shown increased interest. We believe it is important to have this program available to meet the potential for increased demand.

In FY 1985 A.I.D. initially reserved $60 million from ESF appropriations as a reserve for the $300 million in TCIP guaranty authority. Late in the fiscal year it became apparent that the TCIP was starting slowly; that much less than $300 million of guarantees would be outstanding; and that the reserve was therefore in excess of estimated needs for the near future. At the same time other activities of a high priority in Central America required funding. Accordingly, $50 million of the reserve was reprogrammed. This left a reserve of $10 million, which was obligated by an agreement between A.I.D. and Eximbank.

OTHER DONOR ASSISTANCE TO CENTRAL AMERICA

Senator Leahy: A.I.D.'s regional strategy calls for other donors to increase their economic assistance to Central America. What progress has been made in this area in the past year?

Secretary Shultz: Economic assistance from international financial institutions to Central American countries, excluding Nicaragua, increased 16 percent over the past two years, rising from $508.1 million in 1983 to $589.5 million in 1985.

A constraining factor has been the slowness of several Central American Governments to enact economic reforms which would qualify their countries for increased economic assistance. Prospects are more optimistic in FY 1986 for El Salvador, Guatemala, and Panama since they have initiated economic stabilization programs that are expected to lead to increased multilateral aid commitments. In Panama, for example, discussions with the World Bank and the IMF are at an advanced stage. In Guatemala, the chances of both IMF and increased World Bank lending are promising. El Salvador has recently hosted IMF and World Bank missions, and a World Bank export promotion loan is a possibility in light of the improved political situation and the Duarte Government's commitment to economic stabilization in that country.

As for bilateral aid, the Governments of West Germany and Japan have modestly increased their assistance to Central America since the start-up of the Central America Initiative. In 1985, West German economic assistance to the region is estimated at $36.6 million versus $34.7 million in 1984. Japanese aid in 1984 totalled $19.2 million. Total bilateral economic assistance provided by Development Assistance Committee (DAC) member countries totalled $169.4 million in 1984.

CASH TRANSFER IMPACT

Senator Leahy: Since the United States reestablished an assistance program to Egypt in 1974, it has provided Egypt with our $12.3 billion in non-military assistance of which $9.4 billion has been Economic Support Funds (ESF). The remaining $2.9 billion has been Public Law 480 food aid. The primary objective of the assistance has been to help promote and maintain peace and

stability in the Middle East. A second, longer-term objective which has evolved since 1974 is the improvement of Egypt's economy.

ESF can be distributed to a recipient country in the form of project support, commodity import support, and cash transfers. Up until fiscal year 1984, A.I.D. provided all of the ESF to Egypt in the form of project support and commodity import support, with project support the dominant means of distribution. In fiscal year 1984, A.I.D. started distributing a portion of the ESF to Egypt in the form of cash transfers. A.I.D. has attempted to condition these cash payments on commitments by the Government of Egypt to undertake certain development efforts.

What development efforts has the Government of Egypt undertaken in response to the provisions of U.S. cash payments? What have been the results of these efforts?

Secretary Shultz: U.S. willingness to consider cash transfer assistance coupled with continuing balance of payments deterioration, has compelled new initiatives from the Egyptians to search for ways to reverse present economic trends. It is important to recognize, however, that the cash transfers are not provided so much for development project efforts as they are to facilitate economic policy reform. The current reform program, which is to be implemented in phases, grew, in part, out of discussions the U.S. Mission continues to have with the Egyptian government concerning ways to link our supplemental to progress in economic reform, as instructed by Congress. We have reported on this progress in response to another question. To the extent we succeed in promoting essential reform, we could also help unlock additional balance of payments financing from the World Bank and IMF.

EGYPTIAN COMMITMENTS AND CASH TRANSFERS

Senator Leahy: How does A.I.D. determine whether Egypt is keeping the economic development commitments made in exchange for U.S. cash payments?

Secretary Shultz: A.I.D. has a special segment of its senior staff committed full time to the policy dialogue process and to monitoring and analyzing the reform efforts developed and implemented by the Government of Egypt. However, project-type monitoring is not possible since cash grants, which are made for balance of payments purposes, are deposited in a country's central bank and commingled with other foreign exchange resources. In addition to the dollar assistance provided, the Government agreed in covenants signed in 1984 and 1985 to budget an equivalent amount of its own local currency for use in the health and housing sectors. The Government in fact provided funds in these sectors that exceeded the original cash transfer totals.

STAFFING IMPLICATIONS OF CASH TRANSFER

Senator Leahy: What has been the impact on the U.S. A.I.D. Egypt mission from providing some of the ESF in the form of cash transfer? For example: has it relieved some of the staff burden of managing a very large project portfolio? Have staff numbers decreased due to providing some form of the ESF as cash? Has it contributed to more efficient use of staff?

Secretary Shultz: The cash transfers have not been provided at the expense of the project portfolio. The cash transfers to date have been provided as (1) supplemental aid, (2) in lieu of some of the CIP program, and (3) from deobligation of residual funds. Thus, there is no direct link between the staff reductions and the level of cash transfer to date. Some direct hire reduction has been achieved through greater program concentration. There has been no reduction in staff as a result of the cash transfer; nor is it possible to say that cash transfers have contributed to more efficient use of staff.

CASH TRANSFER AND CONTROL OVER ASSISTANCE FOR DEVELOPMENT PURPOSES

Senator Leahy: To what extent has providing funding in the form of cash lessened A.I.D.'s control over the use of the assistance for development purposes?

Secretary Shultz: As stated in response to a previous question, A.I.D. is unable to undertake project-like monitoring of cash transfers. Nevertheless, we have sought and received written assurances from the government that the Egyptian pound equivalent of these cash transfer monies will be used for development. The Government has no obligation, however, to use the foreign exchange from cash transfers in any particular sector; the only agreed restriction is not to use it for military purposes. As noted in a previous response, the Government of Egypt does use equivalent amounts of its own currency for development purposes.

FUTURE CASH TRANSFERS

Senator Leahy: Will A.I.D. continue to distribute a portion of the ESF assistance to Egypt in the form of cash payments? Does A.I.D. expect to increase the use of cash transfers (including sector development grants) in its assistance program for Egypt?

Secretary Shultz: A.I.D. expects to continue to distribute a portion of the ESF assistance in the form of cash transfers under circumstances of continuing balance of payments pressure, and in support of our macro-economic policy dialogue. A.I.D. will consider some increase in the cash component of our program only if it is related to the implementation of a comprehensive

stabilization and adjustment program, which is aimed at closing the balance of payments financing gap and which can be supported by the international financial community.

EGYPT'S PROGRESS IN CHANGING ECONOMIC POLICIES

Senator Leahy: Egypt's economy is distorted by a costly and complex set of price controls and subsidies. A.I.D. is attempting to influence the Government of Egypt to change these economic policies.

What progress has the government of Egypt made in changing these economic policies? How has A.I.D. helped to promote these changes?

Secretary Shultz: A.I.D. has achieved important policy progress with our large development program in Egypt. This has been done by focussing our policy dialogue on certain key areas which have high development priority and in which we have been able to commit substantial resources over a sustained period. For example, major investments in electrical power generation have supported several electricity rate increases. Another example is the agriculture sector. The priority that we and the Egyptian Government place on increasing food production and small farm productivity has encouraged the reform of pricing policies that influence farmers' production decisions.

We have also used cash transfer assistance to broaden the policy dialogue to encompass macro-economic reform proposals and overall structural adjustment. As a result, in part, of our on-going dialogue, reform measures during the last half of 1985 included the following.

-- procurement prices of wheat, rice, sugarcane, and cotton increased 20-30%, after an August increase of 38%, wheat prices now approximate U.S. levels;

-- electricity price increases of around 37% were announced in July;

-- prices of sensitive consumer items such as gasoline, bread, and cigarettes have also been increased;

-- prices of air and sea tickets were increased 60% in December.

TRANSFER OF FUNDS

Senator Leahy: As of September 30, 1984, A.I.D. had approved grant funds totaling $225 million for Basic Village Services projects in the Government of Egypt's decentralization program. The program is designed to support Egypt's policy of decentralizing authority for developing projects to the local level.

GAO noted that goals have not been attained for speeding up the flow of cash through the various Egyptian government entities. There are further opportunities to shorten the time it takes to move funds from one governmental level to another, thereby enabling A.I.D. to avoid disbursing funds before they are needed. At the village level, councils are holding funds for long periods of time. This indicates that funds were prematurely disbursed, possibly before project planning was completed and contracts were ready to be awarded.

What is A.I.D. doing to reduce the number of days it takes the Egyptian central government and governorates to transfer funds to the village councils?

Secretary Shultz: A.I.D. efforts to reduce time for transfer of funds have focused on the new Local Development II (LD II) project ($156 million) and are described below. For the remaining $4.5 million in Basic Village Services (BVS) grant funds, A.I.D. will continue to depend on field monitoring by the BVS planning-and-finance U.S. consultant (Chemonics), A.I.D. Foreign Service National (FSN) staff, and central ministry officials to obtain information on transfer of funds to village councils. Senior Egyptian officials will continue to intercede in cases where funds are not transferred expeditiously. Additional BVS funds for larger pilot village-wastewater projects will be phased into periodic tranches to be disbursed according to implementation progress. These pilot projects will be intensively monitored by A.I.D. and U.S. consultant staff to ensure most efficient use of funds.

The new LD II Program was designed with the concern for improved cash management clearly in mind. An intensive policy dialogue with high-level officials of the Ministry of Planning, Ministry of Finance, and Ministry of Local Government, have led to several major improvements in the decentralized planning process and related financial monitoring. A.I.D. has negotiated a covenant in the LD II Grant Agreement in which the Egyptian Government has agreed to provide A.I.D. with a quarterly cash management report which will systematically track and report on all disbursement of funds from A.I.D. to village councils. This report will supplement existing financial reports which focus on use of funds after receipt by village councils. The report will be computerized, thereby making possible the easy generation of "exceptions reports" which can pinpoint problem areas and bring them to the attention of senior officials for action. This new report will be used with the first LD II disbursements expected this fall.

PLANNING BEFORE DISBURSING FUNDS

Senator Leahy: What is A.I.D. doing to ensure that projects are fully planned and ready for contracting before it disburses funds?

Secretary Shultz: For remaining BVS project funds, the U.S. consultant/specialists will continue to provide assistance to the BVS Steering Committee in reviewing proposed projects for adequate planning. Given the growing experience of local governments in project planning, this final review will focus on larger projects, over LE 100,000 in size ($120,000 or $55,000 depending on whether the official or market value of the dollar is used). To-date the average BVS project has been Egyptian Pounds (LE) 45,000 and the median value for all projects is LE 15,000. In such reviews, particular attention is paid to proper cost estimation and budgeting for contingencies. This is to help eliminate delays in use of funds due to unforeseen increases in price of materials and labor. As has been the practice in BVS, no funds are disbursed for any village project until planning forms and cost estimates have been completed, and the projects have been technically approved by governorate level engineers, further approved by the BVS Steering Committee, and finally reviewed by A.I.D. with assistance from planning finance or engineering consultants.

Under LD II, several significant improvements in the planning process have resulted from the policy/design discussions mentioned above. First, the project proposal documents--which must be prepared in order for a project to be considered--have been improved to address weaknesses noted in BVS. This includes improved needs assessment, planning for recurrent costs, and improved coordination at the governorate level to avoid implementation bottlenecks and permit earlier planning for contracting. Second, a new requirement was instituted whereby large projects (over LE 100,000) must have engineering designs that are completed and reviewed by the U.S. specialist before A.I.D. funds can be disbursed. Third, village councils are required to provide a minimum of 5 percent of the total project cost in a village account prior to disbursement of A.I.D. funds. This latter provision will provide an additional incentive for village council members to ensure that possible implementation obstacles are adequately addressed before committing their and subsequently A.I.D. funds.

A nationwide orientation/training program has been prepared to be underway in May and continue until September to train approximately 10,000 village, district and governorate level officials in the new LD II planning and financing procedures. This orientation program will include specific presentations on the issue of efficient cash management. The orientation will also reiterate the procedures to follow for shifting funds to different projects when unusual implementation delays occur. This initial orientation will be followed up by more specific training over the next three years for selected officials in the areas of project planning, cost estimation, contracting and implementation. In addition, U.S. and Egyptian consultants will be made available to assist local government units in resolving specific planning or implementation problems. Finally, under LD II, substantial technical assistance will be dedicated to improve the efficiency of local governments to monitor use of funds through the use of micro-computers for reporting systems in every governorate.

Questions Submitted by Senator DeConcini

JUSTIFYING INCREASED FUNDING FOR FOREIGN ASSISTANCE PROGRAMS

Senator DeConcini: Mr. Secretary, I have talked with my colleagues over on the House side and understand that you were treated pretty roughly with respect to these budget increases for foreign assistance. Although I would like to empathize with you, my constituents in Arizona are also treating me this same way with respect to budget increases, flowing out of this country while they are forced to take cuts in veterans benefits, COLA's, and state projects for water irrigation and education. While we can debate the current state of the economy and whether we use this baseline or that for budget levels, here are some statistics on foreign assistance increases, since 1981 that speak for my constitutents anger:

* Foreign aid has increased from $6.3 billion to $15.5 billion in the last five years, a 143% increase.

* MAP funding has grown from $110 million to $886 million in this five year period, a 886% increase.

* Military assistance in general has grown 111%.

* ESF has almost doubled under this Administration, 95% while Development Assistance has gone up 19%.

Pragmatically, Mr. Secretary, given a shrinking resource base in Gramm Rudman days, how can you justify these increases to hard working Americans and what criteria can you apply to more effectively allocate this foreign assistance?

Secretary Shultz: Senator, while I have addressed the question of increases in various foreign assistance programs in response to a question posed by Senator Inouye, I would like to make a couple of observations in response to the first part of your question. This Administration places a very high priority on issues of national defense and foreign policy. This is reflected in the President's budget request, a request which meets the deficit targets set by Gramm-Rudman-Hollings. Our programs are crucial to the national interest.

I would also like to speak to one common misperception, namely that foreign assistance programs are give-aways which are of no help to the average American, and thus should be among the first programs cut in lean years. As we pointed out in our Congressional Presentation Document for security assistance, a large share of foreign aid funding is spent in the U.S., providing jobs for thousands of Americans. This is certainly not the main impetus behind these programs but it is a fact that too often is forgotten or brushed aside.

The second part of your question deals with the process by which we allocate foreign assistance funds appropriated by the Congress. We have a system by which funds are allocated to countries by virtue of their strategic importance to the U.S. First priority is given to the promotion of peace in the Middle

East. Thus, Israel and Egypt are the two largest recipients of U.S. assistance. Next comes support for countries with which we have base rights agreements, followed by military access and frontline states, Central America, and finally, the large number of friendly countries of strategic importance to the U.S. throughout the rest of the world.

This system allows us to put our limited resources into those areas which we believe are of greatest importance to the United States.

VALUATION OF MARCOS JEWELRY

Senator DeConcini: Mr. Secretary, this leads us to ways in which we can save the American taxpayer some money. First of all, let me commend you on a job well done in the Philippines. Your cognent remarks and adroit nandling of this situation deserve this Committees' praise. But this job is not finished. Mr. Marcos, on a $5,700 a year salary, seems to have amassed quite a personal fortune. We have spent $250,000 already on Mr. Marcos in Hawaii. What I would like to get a line on from you today, Mr. Secretary, is the magnitude of his personal assessments. I have read various articles citing the worth of the jewelry he brought into the U.S. This figure ranges from $1 million to $20 million. What figures are accurate?

Secretary Shultz: The U.S. Customs Service appraised the jewelry at approximately $4,000,000. If the jewelry were to be auctioned, for example, it might bring more or less than that amount. Similarly, different appraisers might place more or less value on the jewelry. However, Customs believes that $4,000,000 is a fair value for this jewelry.

MARCOS DOCUMENTS IN POSSESSION OF U.S. CUSTOMS

Senator DeConcini: Today's Washington Post listed 1500 documents belonging to Mr. Marcos. Are there any negotiable instruments of value?

Secretary Shultz: Bearer bonds, U.S. and Philippine currency, and certificates of deposit are still in the possession of U.S. Customs. The total value of these instruments, according to Customs officials, is approximately $22 million. The U.S. Government has moved to place this property in an interpleader proceeding so that the Hawaii federal court may resolve conflicting claims to ownership.

STOLEN U.S. TAX DOLLARS

Senator DeConcini: How can we handle this situation so as to off-set aid to the Philippines or refund our own tax money spent on this fiasco?

Secretary Shultz: I would not draw the conclusion that because former President Marcos has a certain amount of money that per se that money must be stolen U.S. tax dollars given to the Marcos government in the form of foreign aid.

The new government of the Philippines has appointed former Senator Salonga to head the Commission on Good Government. This Commission is charged with investigating the question of hidden wealth. We are cooperating with Senator Salonga and the Commission to the fullest extent possible within the context of U.S., Philippine and international law. There have been several audits of U.S. foreign assistance programs in the Philippines. If any information is found to suggest improper use of these funds, we will take appropriate actions.

CIVIL RIGHTS IN SOUTH KOREA

Senator DeConcini: We have recently witnessed the yearning for freedom around the world. Last month the people of the Philippines claimed their democratic rights and recaptured their democratic heritage. We see a government increasingly at odds with its own people in South Korea. I have written to you on this and urge you to communicate our concern for the rule of law and the right to peacefully petition the government of South Korea on behalf of the citizens there. What have you done about this situation?

Secretary Shultz: On February 13, immediately after the main Korean opposition party launched a petition campaign for constitutional revision, the Department Spokesman referred to Korean Government measures against the campaign and stressed that the right of citizens to petition their government is a basic democratic principle. We welcomed the Korean Government's decision February 24 to permit the petition campaign to proceed, including large public rallies at which political issues are being debated freely and vigorously.

CENTRAL AMERICAN BORDER COMMISSIONS

Senator DeConcini: Why has this Administration given token lip-service to the Contradora Peace Proposal in Central American and not encouraged border patrols consisting of Central American countries? Just today the Washington Post reported that the governments of Costa Rica and Nicaragua agreed to border patrols and are looking for a source of funding.

Secretary Shultz: As the President and I have stated, the Administration strongly supports the Contradora process. We have evidenced our support by appointing three special envoys who have devoted their energies to the search for peace in Central America. We follow Contradora developments closely and consult regularly with the participants. Ambassador Habib is

currently in the region meeting with representatives of the Contradora nations. I would remind you, however, that the United States is not party to the negotiations.

We are convinced that bilateral arrangements, such as the ones the Nicaraguans have been seeking for several years, only serve to undermine the possibility of reaching a comprehensive regional accord. Border agreements with Nicaragua would remove one of the incentives for the Sandinistas to negotiate a regional agreement. We understand that Nicaragua and Costa Rica have reached a preliminary understanding about their joint border, but that no agreement has been completed.

SAUDI ARMS SALES

Senator DeConcini: What is the latest status of the arms sale to Saudi Arabia? I have heard talk of an agreement on the part of the Saudis to support the Israel-Jordan peace talks and that they will not request any more arms for one year.

Secretary Shultz: The Administration proposal to sell additional air defense and anti-ship missiles to Saudi Arabia was formally notified to Congress on April 8. I am not aware of the agreement you mention nor of a Saudi plan regarding additional arms purchases.

AID TO CYPRUS

Senator De Concini: What is the rationale behind the severe cuts to Cyprus?

Secretary Shultz: There was no cut made in the FY 86 earmarked assistance level. Earlier this year we conducted a thorough review of all foreign assistance allocations for FY 86 in order to determine how best to meet priority needs and U.S. commitments worldwide. This review, as you know, also involved consultations with the Congress. Reduction of the allocation for Cyprus was among the options considered but the final decision made was not to reduce the $15 million earmarked. This funding level will be reduced somewhat by the provisions of the Gramm-Rudman-Hollings legislation.

Our FY 87 request for Cyprus is $3 million, the same sum we have requested in previous years. This request reflects our assessment of what is an appropriate and realistic level of funding for bicommunal projects to promote cooperation between Greek and Turkish Cypriots. There is no economic rationale for additional funding for other programs. The Cyprus-America Scholarship Program, for its part, is already adequately funded to maintain the current level of scholarships into the 1990s.

ETHIOPIAN FAMILY REUNIFICATION

Senator DeConcini: Last summer a European government was approved by the U.S. and Israel to act as an intermediary between the Israelis and Ethiopians to facilitate family reunification. Yet, to date, no progress has been achieved with this program. Is this a priority for the Israeli government? What can the U.S. do, if anything?

Secretary Shultz: There has been some quiet progress in family reunification. This Administration has consistently supported humanitarian efforts to assist Ethiopian Jews who seek to rejoin family members residing in other countries. While we cannot speak for the Government of Israel, I am certain you know of the enormous efforts Israel has made since its birth to receive Jews from all over the world.

FORCED RELOCATION IN ETHIOPIA

Senator DeConcini: What is this Administration doing about the forced relocation program being conducted by the Marxist Ethiopian government?

Secretary Shultz: The USG has repeatedly called public attention to the abuses connected with the Ethiopian resettlement program, has pressed for investigation by the donors in Ethiopia and UN representatives, and has voiced criticism directly to agencies and officials of the Ethiopian government in Addis Ababa and in international gatherings. The Government of Ethiopia can have no doubt of our views on this subject. The Ethiopian Government has admitted that it made mistakes in implementing the resettlement program. They attribute this to too hasty planning and to excesses committed by overzealous officials. The program has now entered what the Ethiopians describe as a consolidation phase. They define this to mean the program has halted until problems can be eliminated. As far as we can tell, there has not been any new resettlement since December 1985.

THE SECOND INTERNATIONAL CONFERENCE ON ASSISTANCE TO REFUGEES IN AFRICA (ICARA II)

Senator DeConcini: What is the status of funding for ICARA II projects? Senator Hatfield and I have written you requesting a report on this. Are any projects being funded through A.I.D.?

Secretary Shultz: A.I.D. began developing ICARA II-like projects in 1983. The concept of ICARA II, in fact, follows closely A.I.D.'s own guidelines to help refugees, returnees, and displaced persons become more integrated into the development process in their country of asylum.

To date, A.I.D. has or plans to fund ten separate ICARA II-like projects in Chad, Rwanda, Somalia, Sudan, Uganda, and Zaire for a total of $45 million.

The Department of State recently submitted a report to the Congress on ICARA II-type projects. A copy of that report follows at the conclusion of the questions and answers.

ISRAEL'S LAVI

Senator DeConcini: What is the latest report on the construction of Israel's Lavi?

Secretary Shultz: Israel is continuing with the research and development phase of the Lavi fighter aircraft project, although an active debate is underway within Israel over the question of whether and how to proceed with Lavi production. The United States has serious concerns regarding the projected production costs for the Lavi and their effect on Israel's overall FMS program in the coming years; the United States has made no commitment on funding for production of the Lavi.

(The ICARA II report follows:)

REPORT TO CONGRESS

ICARA II

The Second International Conference on Assistance to Refugees in Africa (ICARA II) took place in July 1984. The U.S. representative, the then Attorney General William French Smith, committed the United States to strong support of the ICARA II goal of achieving durable solutions to Africa's multiple refugee situations through an integration of refugee aid and development aid. The USG did not pledge a specific dollar amount at the conference. The Senate Appropriations Committee has requested that the Department of State report on its "plan for funding of ICARA II-type projects and its justification for not having funded ICARA II-type projects during FY 1985" (Senate Committee on Appropriations Report on the FY 1986 Foreign Assistance and Related Programs Appropriation Bill).

The ICARA II Process

The ICARA II conference itself was widely viewed as a success though it did not generate large pledges of funds from donors. Rather, in adopting the ICARA II Declaration and Program of Action, both donors and African host countries committed themselves to a process of linking refugee aid with development aid. Both would strive to make refugees and returnees self-reliant productive members of the host country's economy through projects that improved an area's overall level of development. Projects in integrated rural development, enhancement of primary health care systems, provision of water, establishment of schools, and road construction would benefit nationals of a country as well as refugees, and would be compatible with and supportive of national development plans. Where possible, refugee assistance would be more development-oriented than in the past while refugees would be included as an economic factor (often a burden but sometimes an advantage) in development programming. The process would be reflected in the involvement of line ministries and as an agenda item in World Bank Consultative Group and UNDP Roundtable meetings.

All parties were most anxious to shed the open-ended burden of caring for dependent refugees. The ICARA II conference itself was extremely important in that it served to raise the overall level of understanding of the problems and to promote a systematic dialogue about appropriate solutions.

The Concept of Additionality

One of the most difficult aspects of the ICARA II conference - one which nearly led to a lack of consensus on the Declaration and Program of Action - was the concept of additionality. African nations were anxious that donor support for ICARA II-type projects not displace development projects for their own nationals. The Africans also had in mind ICARA I where large sums of money were pledged but represented, for the most part, what donors were prepared to do anyway. This was translated into an understanding that ICARA II resources should be additional to donors' regular ongoing development activities. The USG view was that ICARA II-type activities, to

the extent that they were new initiatives, would be by definition additional to what was being done in July 1984. Since the ICARA II process would continue as long as there were African refugees in need of durable solutions, and since budgets beyond 1985/86 had yet to even be formulated, it was meaningless to speak of "additionality." The Administration's position going into ICARA II was that significant sums of money, beyond what might reasonably be expected to be requested in future fiscal years, were unlikely to be made available in the prevailing budgetary climate. Rather, the high priority accorded to the ICARA II process would be reflected in the sort of development projects designed and in the allocation of appropriated funds.

Impact of the Drought/Famine Emergency

Delegates had barely returned home from Geneva when reports from Africa made the extent of the 1984/85 drought/famine excruciatingly clear. Not only were existing refugee populations affected as their crops failed, but also drought combined with civil strife to generate hundreds of thousands of new refugees. Emphasis understandably shifted from development to relief. ICARA II follow-up missions sent to Africa by some governments and international and voluntary organizations found too few host government officials able to dedicate sufficient time and energy to the design and feasibility of ICARA II-type projects. Private Voluntary Organizations (PVOs) who were to be tapped as ICARA II-type project implementors were overstretched by the drought/famine response. It has been a cruel irony that drought has intensified some of the very needs that the ICARA II process was designed to address while at the same time diverting resources from those needs.

The African Famine Relief and Recovery Supplemental Appropriations Act of FY 1985 provided that the Administration could use some of the funds appropriated for the Migration and Refugee Assistance (MRA) Appropriation for ICARA II-type projects "to address the immediate development needs created by refugees and displaced persons in Africa." Although the Department made considerable efforts to retool some of the ICARA II projects to make them responsive to the new needs and to fit the short-term recovery concept as envisaged by the legislation, all of the supplemental funds were ultimately required for pressing emergency needs. (N.B. It should be kept in mind that the ICARA II process is independent of the recent drought/famine and not limited to countries and sectors impacted by drought.) Had circumstances permitted, the Administration would have funded several ICARA II-type recovery projects, especially in Sudan and Somalia, from the FY 1985 supplemental funds. In fact, it became clear that the basic life-saving programs of the United Nations High Commissioner for Refugees (UNHCR) and the International Committee of the Red Cross (ICRC) would continue to be needed and would be costly through 1986. It was also reasonably clear that existing FY 1985 and anticipated FY 1986 refugee resources would not be sufficient to cover USG support at traditional levels. Therefore, the Administration decided that it had no choice but to give priority to emergency needs over recovery needs despite the logic of moving to recovery just as quickly as possible to escape the trap of continual short-term assistance.

Annex A shows how the FY 1985 Supplemental MRA funds have been obligated.

Progress to Date

The ICARA II picture is not entirely disheartening. The USG had already, following ICARA I, begun funding development-oriented refugee projects in Africa. Projects begun before the ICARA II conference are continuing today. A number of other projects have commenced since the conference. Some $71 million have been obligated/committed to date. Annex B lists projects by name, funding account, and fiscal year.

Steps have been taken to link refugee aid with development aid. Primary responsibility for follow-up at the United Nations level has been taken by an ICARA II unit within the United Nations Development Program (UNDP); and that unit is brokering inputs by others of the U.N. specialized agencies, for example, leading the International Labor Organization and the World Food Program to work together on a roads project in Tanzania. UNDP country programming in Africa for the next development cycle is specifically including refugees as an economic factor. At the most recent Consultative Group meeting held on aid to Somalia, the Government of Somalia included refugees on the agenda as part of its development strategy. Within our own government, regular development assistance funds are being used in some cases to fund ICARA II-type projects. (See Annex B - ICARA II projects in Zaire) It is anticipated that some very successful ongoing ICARA II-type projects in Chad and Sudan will be expanded and folded into the regular bilateral development programs in those countries. For example, the Africare reforestation/agricultural development project in Abeche that was designed to help reintegrate returned refugees from Chad's civil war was expanded in 1985 to accommodate people displaced by drought in Chad; and it holds promise for helping to reintegrate those current refugees who may return from Sudan. In Somalia, a new PVO umbrella project may fund continued and new ICARA II-type projects since many of the PVOs operating in Somalia have been very involved with refugee assistance.

Future Plans

Given the deficit-reduction budgetary climate, the Administration sees few or no prospects for funding ICARA II-type projects from the MRA Appropriation in either FY 1986 or FY 1987. For 1986, Congressional earmarkings combined with Gramm-Rudman-Hollings cuts have put the MRA availability for African refugee assistance at $52.7 million. This is some $16 million below the traditional level of USG support given the requirements for life-saving and life-sustaining assistance as they are now estimated. Likewise, the austere level of the FY 1987 MRA request did not allow for specific funds for ICARA II-type projects.

The Administration will work creatively with the UNHCR as it revamps its programs during the coming months, to direct traditional programs and available resources to a more aggressive pursuit of durable solutions. For development-oriented refugee projects that are beyond the program and competence of the UNHCR the Administration will seek, as noted above, to fold such activities into regular development portfolios where possible. In addition, the Administration is urging some of the non-traditional sources of private funding such as USA for Africa and LiveAid Foundation/BandAid Trust to consider funding refugee recovery, ICARA II-type projects. And, American PVOs are being

encouraged to once again focus on refugees as they design recovery and development projects for submission to the non-traditional funding sources.

The Administration remains committed to the ICARA II process. It holds promise for bringing down refugee assistance costs over the longer term through pushing refugees more rapidly toward self-reliance and through making it more possible for the host countries to donate their land and services to refugees. Helping to ease the burden that large numbers of refugees present for host countries and helping to capitalize on the advantages that refugee skills may represent is an increasingly key component of the international community's mandate to provide asylum and protection for refugees. It is important to avoid disillusionment that would lead to pressure for holding an ICARA III. Furthering the ICARA II process is very much in the self interest of the USG as the largest single contributor of refugee assistance.

ANNEX A

FY 1985 AFRICAN FAMINE RELIEF AND RECOVERY SUPPLEMENTAL

ICRC	1985 Africa Appeal	$ 6,000,000
UNHCR	1985 Africa Emergency Appeal	2,700,000
UNHCR	1986 Africa Emergency Appeal	3,500,000
U.N. Office of Emergency Opns. in Africa		300,000
TOTAL		$12,500,000

ANNEX B

ICARA II-TYPE PROJECTS FUNDED BY THE USG

Country	Project	($000)	Source	FY
Burundi	Health clinic construction	1,332.5	MRA	82
Chad	Reafforestation	3,000.0	ARSF	84
Chad	Small enterprise reactiv.	1,500.0	ARSF	84
Kenya/ Zambia	Vocational Education	157.4	MRA	86
Lesotho	2ndary school sci. labs	52.1	MRA	85
Rwanda	Integrated herding/agric	4,469.7	MRA	83
Rwanda	Reafforestation	2,500.0	ARSF	84
Somalia	Reafforestation	6,000.0	ARSF	83
Somalia	Refugee self-reliance	6,000.0	ARSF	83
Somalia	Settlement Design	650.0	ARSF	84
Somalia	Local settlement	4,000.0	ARSF	86*
Sudan	Port Sudan water	3,000.0	MRA	81-2
Sudan	Gedaref water design	750.0	ARSF	83
Sudan	Gedaref water	7,500.0	MRA	83
Sudan	Increase-Gedaref water	5,500.0	ARSF	84
Sudan	Increase-Gedaref water	600.0	ARSF	86*
Sudan	Integrated agr. devel.	5,109.4	MRA	82-5
Sudan	Self-reliance Vulnerables	821.2	MRA	83-4
Sudan	Reafforestation	4,550.0	ARSF	83
Sudan	Water drilling	32.4	MRA	85
Swaziland	School Construction	200.0	MRA	82
Uganda	Integrated agr. devel.	4,300.0	ARSF	86*
Zaire	Shaba water	2,250.0	DA	84
Zaire	Shaba roads	3,575.0	ARSF	84
Zaire	Shaba health	2,500.0	DA	84
Zambia	Aquaculture	729.0	MRA	84
TOTAL		$71,078.7		

* Anticipated

MRA - Migration and Refugee Assistance Account (State/RP)
ARSF - African Refugee Resettlement Services and Facilities Project (AID/AFR with RP input)
DA - Development Assistance (AID/AFR)

SUBCOMMITTEE RECESS

Senator D'AMATO. This subcommittee stands in recess until March 18. Again we thank you for your cooperation.

[Whereupon, at 11:52 a.m., Thursday, March 13, the subcommittee was recessed, to reconvene at 2 p.m., March 18, 1986.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1987

TUESDAY, MARCH 18, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:20 p.m., in room S–126, the Capitol, Hon. Robert W. Kasten, Jr., (chairman) presiding.

Present: Senators Kasten, D'Amato, Specter, and DeConcini.

DEPARTMENT OF STATE

SECURITY ASSISTANCE, SCIENCE, AND TECHNOLOGY

STATEMENT OF WILLIAM SCHNEIDER, JR., UNDER SECRETARY OF STATE FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

INTRODUCTION OF WITNESS

Senator KASTEN. The subcommittee will come to order.

This afternoon, we will continue our hearings on the administration's request for funding of programs under the jurisdiction of the Foreign Operations Subcommittee. Today's witness is the Honorable William Schneider, Under Secretary of State for Security Affairs, who is accompanied by Gen. Philip Gast, Director of the Defense Security Assistance Agency.

Bill, General Gast, we welcome you here today. It has been a pleasure working with both of you over the years, and we look forward, again this year, to continuing our ongoing working relationship.

We have statements from both of you, which will be inserted in the record. If you wish to proceed with a summary of your statement, then General Gast could proceed with a summary of his statement, then we will start with questions.

We thank you very much for being here, and we welcome your testimony.

Dr. SCHNEIDER. Thank you, Mr. Chairman. I do have a brief summary to offer to supplement the longer statement that was submitted for the record.

BUDGET PROGRAM

The President's budget for the coming fiscal year reflects much painstaking analysis and many hard choices. I welcome the chance to discuss these proposals with you today for fiscal year 1987.

Within the overall budget package, consistent with the Gramm-Rudman-Hollings deficit reduction limitations, the program we propose is responsive to our political, economic, and military challenges. It is a balanced effort to utilize security assistance as an effective instrument of U.S. foreign and defense policies.

SECURITY ASSISTANCE

Security assistance is an essential part of the U.S. effort to guarantee its own national security. It is an extension of the resources we devote to our forces, and part of our role as a major leader in the free world.

Since World War II, our security assistance effort has evolved and diversified to meet changing world conditions, reflecting a cooperative effort between succeeding administrations and Congresses. Over the past 5 years, congressional support for the expansion of program levels and changes in basic legislation have provided the basis for dealing more effectively with current and emerging problems. We have made progress, but the job is far from completed.

Many challenges and opportunities lie before us, and we, again, seek the cooperation and support of the Congress in assuring that the United States is able to do what must be done.

FUNDING FOR PEACE MOVES IN MIDDLE EAST

Approximately half of our fiscal year 1987 request is directed to encouraging peace in the Middle East, in particular a just and comprehensive peace between Israel and its Arab neighbors. A total of $5.3 billion is proposed toward this important goal. Three billion is in forgiven foreign military sales credits and economic support funds, grant financing which will help assure Israel's continued military preparedness and economic stability. A $2.1 billion package will support Egypt's continuing commitment to the 1979 Peace Treaty with Israel.

The more modest levels proposed for Jordan are essential to that country's ability to implement its commitment to the peace process.

COOPERATIVE SECURITY ARRANGEMENTS

Strengthening cooperative security arrangements with allies and friends at strategic points around the world is a cornerstone of our foreign and defense policies. This year's budget devotes some $2.8 billion toward that objective.

NATO PROGRAMS

The largest programs are with our NATO partners, Spain, Portugal, Greece, and Turkey. These programs enhance the allies' ability to contribute to NATO's proven strategy of deterrence and defense against the threat of Soviet aggression. They also reflect close and specialized arrangements for bilateral cooperation represented by significant U.S. military bases and installations.

PACIFIC PROGRAMS

In the Pacific, our programs support similar base arrangements with the Republic of the Philippines, a valued friend and ally. The new government of the Philippines will need our continued help and support to deal with deep-seated economic and social problems, and an entrenched Communist insurgency.

AFRICAN PROGRAMS

In a number of North and East African countries, there is also a real, if not always explicit, linkage between our programs and the facilities these countries make available, which enhance the strategic reach of U.S. forces.

Free and friendly nations in many areas of the world are facing aggression, the threat of such aggression, or externally supported insurgency or subversion. These conditions not only put in jeopardy the security of the individual countries, but also undermine the security of the neighboring areas. They are a challenge to fundamental U.S. interests.

FAR EAST PROGRAMS

Our program proposals will continue to assist frontline countries such as Korea, Thailand, and Pakistan in meeting these challenges.

LATIN AMERICAN PROGRAMS

El Salvador's efforts to deal with externally supported guerrilla and terrorist threats and to press forward with political, economic and social reforms to meet the underlying causes of unrest directly depend on these programs. Our help in the past four years has allowed the Salvadoran Government to gain the military initiative and make an impressive start on permanent democratic institutions. We must keep up the momentum.

Our proposals will encourage similar reforms in Honduras, and strengthen both Honduras and Costa Rica in the face of the heavily armed and hostile Sandinista regime in Nicaragua.

U.S. assistance plays a key role in sustaining the self-defense capabilities of Tunisia against the threat of neighboring Libya.

BROAD GOAL OF U.S. SECURITY ASSISTANCE

The broad goal of U.S. security assistance in a number of recipient countries is regional stability, these include Indonesia, Burma, and our neighbors and friends in South America, the Caribbean, and the countries of sub-Saharan Africa. Country and regional programs attempt to address structural economic problems and, where appropriate, provide some help in military modernization.

In many other countries, especially within the developing world, our security assistance relationship is essentially limited to activities under the International Military Education and Training Program. This cost effective vehicle enhances military skills and professionalism, exposes a key segment of foreign societies to American strategic, political and

humanitarian views, and forges ties that provide access to future leaders.

CONCESSIONAL RATE FINANCING

Legislative changes in recent years have given us greater flexibility to tailor programs to country situations and policy goals. Among these innovations are forgiven FMS credits for Israel and Egypt, and the ability to provide concessional rate financing.

The concessional alternative meets a genuine need, but the availability fell short of that need in fiscal year 1986. I strongly urge that the subcommittee give favorable consideration to our request for an increase in the concessional ceiling in fiscal year 1987.

We share the concerns of many in Congress with respect to the foreign debt burden on many of our major program participants. We are monitoring the country impact of our loans and we are undertaking a more comprehensive analysis of the problem and possible solutions. We will share with you some of the insights and conclusions that emerge from this effort.

SPECIAL DEFENSE ACQUISITION FUND

The Special Defense Acquisition Fund is becoming an effective mechanism for providing timely support of valid defense requirements. We are now able to shorten delivery lead time and introduce a revolving fund concept into the SDAF.

What we now need, mostly, is a 2-year obligational authority to synchronize more closely SDAF procurements with those of our military departments. We are also requesting $350 million in obligation authority which can be supported with the capital receipts from the SDAF sales.

I cited with satisfaction the cooperation between the administration and the Congress on the last 5 years' security assistance agenda. I must, however, underscore with equal frankness that the fiscal year 1986 legislation left serious shortfalls in many of our major programs. Earmarkings, ceilings, and restrictive provisos further complicated the problem posed by funding reductions, creating legal and systemic rigidities to complicate already difficult trade-offs, and hamper adequate and timely responses to unforeseen needs and opportunities.

If we are to utilize security assistance as an effective policy tool, we must have both adequate resources and a sufficiently flexible legislative mandate.

Mr. Chairman, this completes my prepared remarks, and I would be happy to respond to any questions that you may have.

[The prepared statement of Dr. Schneider follows:]

PREPARED STATEMENT OF WILLIAM SCHNEIDER, JR.
UNDER SECRETARY OF STATE
FOR
SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE ON FOREIGN OPERATIONS:

THE PRESIDENT'S BUDGET FOR THE COMING FISCAL YEAR REFLECTS MUCH PAINSTAKING ANALYSIS OF THE COMPETING DEMANDS ON LIMITED NATIONAL RESOURCES. IT REFLECTS RIGOROUS SIFTING OF PRIORITIES. AND, IT REFLECTS MANY HARD CHOICES.

AS THE CONGRESS BEGINS ITS EQUALLY PAINSTAKING AND THOUGHTFUL CONSIDERATION OF THIS BUDGET REQUEST, I WELCOME THE CHANCE TO MEET WITH YOU TODAY TO DISCUSS OUR PROPOSALS FOR SECURITY ASSISTANCE IN FY 1987.

WITHIN AN OVERALL BUDGET PACKAGE THAT WE BELIEVE IS FULLY CONSISTENT WITH GRAMM-RUDMAN-HOLLINGS DEFICIT REDUCTION LIMITATIONS, THE SECURITY ASSISTANCE PROGRAM LEVELS AND COMPOSITION WE ARE PRESENTING FOR YOUR CONSIDERATION ARE RESPONSIVE TO THE POLITICAL, ECONOMIC AND MILITARY CHALLENGES WE FACE. OUR PROPOSALS ARE TARGETED TO DEFINED NEEDS AND GOALS.

IN THIS YEAR'S SUPPORTING DOCUMENTATION, WE HAVE MADE THIS LINKAGE MORE EXPLICIT THAN IN YEARS PAST, AND WE HAVE TRIED TO MEET SOME OF THE EXPRESSED DESIRES OF COMMITTEES FOR EXPANDED PROGRAM AND BACKGROUND DATA.

THE PROPOSED SECURITY ASSISTANCE PROGRAM IS A COMPREHENSIVE, AND BALANCED EFFORT TO UTILIZE SECURITY ASSISTANCE AS AN EFFECTIVE INSTRUMENT OF UNITED STATES FOREIGN AND DEFENSE

POLICIES. SIGNIFICANT REDUCTIONS IN THE PROGRAM -- WHETHER BY DIRECT CONGRESSIONAL ACTION OR BY THE AUTOMATIC CUTS UNDER THE EXISTING DEFICIT REDUCTION LEGISLATION -- WILL SERIOUSLY CRIPPLE OUR EFFORTS TO MEET CHALLENGES TO OUR VITAL INTERESTS AROUND THE GLOBE.

BY DEFINITION, "SECURITY ASSISTANCE" BENEFITS OTHER COUNTRIES. IT HELPS OTHER COUNTRIES BECOME STRONGER AND SAFER. SECURITY ASSISTANCE IS ALSO AN ESSENTIAL PART OF THE UNITED STATES' EFFORT TO GUARANTEE ITS OWN NATIONAL SECURITY. IT IS AN EXTENSION OF THE RESOURCES WE DEVOTE TO OUR OWN DEFENSE FORCES, AND DERIVES INESCAPABLY FROM OUR ROLE AS A SUPERPOWER AND THE LEADER OF THE FREE WORLD. IT SERVES OUR "BOTTOM LINE" NATIONAL INTEREST IN THE SURVIVAL, INTEGRITY AND PROSPERITY OF OUR OWN NATION AND SOCIETY. IT IS PART OF THE SEARCH FOR A WORLD ENVIRONMENT IN WHICH THERE IS RESPECT FOR THE RIGHTS BOTH OF NATIONS AND OF INDIVIDUALS.

IN THE FORTY YEARS SINCE WORLD WAR II, OUR SECURITY ASSISTANCE EFFORT HAS EVOLVED, HAS EXPANDED AND HAS DIVERSIFIED TO MEET CHANGING WORLD CONDITIONS. THIS PROCESS HAS BEEN A COOPERATIVE EFFORT BETWEEN SUCCEEDING ADMINISTRATIONS AND CONGRESSES. THE EXECUTIVE AND LEGISLATIVE BRANCHES RECOGNIZED THAT STRONG U.S. ACTION WAS REQUIRED TO HELP REBUILD AND REARM THE DEMOCRACIES OF THE WEST IN THE IMMEDIATE AFTERMATH OF A GLOBAL CONFLICT AND UNDER THE GROWING SHADOW OF COMMUNIST AGGRESSION AND SUBVERSION. IN THE FACE OF AN INCREASED SOVIET THREAT IN THE POST-WAR ERA AND THE EMERGENCE OF OTHER CHALLENGES TO WORLD ORDER, THERE HAS BEEN ESSENTIAL AGREEMENT WITHIN OUR GOVERNMENT ON THE NEED TO MAINTAIN AND REFINE MECHANISMS FOR AID AND COOPERATION WITH FRIENDLY COUNTRIES. OVER THE LAST FIVE YEARS IN PARTICULAR, CONGRESSIONAL SUPPORT FOR THE EXPANSION OF PROGRAM LEVELS AND THE LEGISLATIVE CHANGES TO THE FOREIGN

ASSISTANCE AND ARMS EXPORT CONTROL ACTS HAVE PROVIDED A BASIS FOR DEALING MORE EFFECTIVELY WITH CURRENT AND EMERGING PROBLEMS.

WE HAVE BEEN ABLE TO MAINTAIN AND EXPAND COOPERATIVE AND SUPPORTIVE RELATIONSHIPS WITH ALLIES AND FRIENDS AROUND THE WORLD; TO MEET OUR COMMITMENTS TO THE SECURITY OF ISRAEL AND TO THE SEARCH FOR PEACE AND STABILITY IN THE VOLATILE MIDDLE EAST; TO STRENGTHEN THE CONFIDENCE AND CAPABILITIES OF NATIONS FACING AGGRESSION AND INSURGENCIES WAGED OR SUPPORTED BY THE SOVIET UNION AND ITS SURROGATES; TO HELP DETER OR CONTAIN REGIONAL CONFLICTS; AND TO ENCOURAGE THE DEVELOPMENT OF DEMOCRATIC INSTITUTIONS, ECONOMIC GROWTH AND POLICIES RESPONSIVE TO HUMAN NEEDS.

WE HAVE MADE PROGRESS. BUT THE JOB IS FAR FROM COMPLETED. A SPECTRUM OF CHALLENGES AND OPPORTUNITIES LIE BEFORE US AS WE LOOK AHEAD TO FY 1987 AND INTO THE NEXT DECADE. THE ADMINISTRATION'S BUDGET PROPOSALS REPRESENT THE RESPONSE WE MUST MAKE TO PROTECT OUR OWN VITAL NATIONAL INTERESTS. THE PROGRAM ELEMENTS ARE SPECIFICALLY TAILORED TO THESE INTERESTS. AND WE AGAIN SEEK THE COOPERATION AND SUPPORT OF THE CONGRESS IN ASSURING THAT THE UNITED STATES IS ABLE TO DO WHAT MUST BE DONE.

APPROXIMATELY HALF OF OUR TOTAL FY 1987 SECURITY ASSISTANCE REQUEST IS DIRECTED TO ENCOURAGING THE PROCESS TOWARD PEACE IN THE MIDDLE EAST. THE PROPOSED U.S. PROGRAMS FOR COUNTRIES OF THIS STRATEGIC AND UNSETTLED AREA WILL FACILITATE ECONOMIC DEVELOPMENT, ENCOURAGE POLITICAL MODERATION AND PROMOTE REGIONAL STABILITY. IN PARTICULAR, OUR SECURITY ASSISTANCE RELATIONSHIPS WILL CONTINUE TO BE SUPPORTIVE OF OUR DIPLOMATIC EFFORTS TO SECURE A JUST AND COMPREHENSIVE PEACE BETWEEN ISRAEL AND ITS ARAB NEIGHBORS. OUR PROGRAMS ARE TANGIBLE SIGNS OF THE UNITED STATES' DETERMINATION TO HONOR ITS COMMITMENTS, AND ARE A VITAL FACTOR IN

EFFORTS TO CURB SOVIET INFLUENCE IN THE AREA AND TO DETER AGGRESSION, SUBVERSION AND STATE-SUPPORTED TERRORISM.

A TOTAL OF $5.5 BILLION IN ECONOMIC SUPPORT FUNDS, FOREIGN MILITARY SALES FINANCING AND INTERNATIONAL MILITARY TRAINING AND EDUCATION PROGRAM GRANTS IS PROPOSED TOWARD THIS IMPORTANT GOAL. $5 BILLION IN "FORGIVEN" FOREIGN MILITARY SALES CREDITS AND GRANT BALANCE OF PAYMENT SUPPORT FROM THE ECONOMIC SUPPORT FUND WILL HELP ASSURE ISRAEL'S CONTINUED MILITARY PREPAREDNESS AND PROMOTE THE COUNTRY'S ECONOMIC STABILITY. A $2.1 BILLION TOTAL SECURITY ASSISTANCE PACKAGE FOR EGYPT WILL SUPPORT THAT COUNTRY'S CONTINUING COMMITMENT TO ITS 1979 PEACE TREATY WITH ISRAEL. THIS "FORGIVEN" FMS AND ESF GRANT FINANCING IS DESIGNED TO HELP MODERNIZE THE EGYPTIAN MILITARY AND SUPPORT NEEDED ECONOMIC REFORMS.

FOR JORDAN, WE ARE PROPOSING RELATIVELY MODEST FMS CREDIT AND ESF LEVELS FOCUSED ON SUSTAINING CURRENT READINESS LEVELS WITHOUT MAJOR FORCE IMPROVEMENTS AND ON SUPPORTING ONGOING DEVELOPMENT PROJECTS. CONTINUING U.S. ASSISTANCE IS ESSENTIAL TO JORDAN'S ABILITY TO IMPLEMENT ITS COMMITMENT TO THE PEACE PROCESS. THE REMAINING PROPOSALS DIRECTLY SUPPORTIVE OF MIDDLE EAST PEACE WILL FINANCE SMALL-SCALE ACTIVITIES -- INCLUDING HUMANITARIAN AND RECONSTRUCTION EFFORTS -- IN WAR-TORN LEBANON, AS WELL AS ECONOMIC AND SOCIAL DEVELOPMENT EFFORTS THROUGHOUT THE AREA UNDER THE UMBRELLA OF THE MIDDLE EAST REGIONAL FUND.

STRENGTHENING COALITION DEFENSE CAPABILITIES AND CONCRETE COOPERATIVE SECURITY ARRANGEMENTS WITH ALLIES AND FRIENDS IN STRATEGIC POINTS AROUND THE WORLD IS A CORNERSTONE OF OUR FOREIGN AND DEFENSE POLICY. THIS YEAR'S BUDGET DEVOTES SOME $2.8 BILLION TO THIS ESSENTIAL GOAL. THE LARGEST PROGRAMS UNDER THIS RUBRIC ARE THOSE WITH PARTNERS IN THE NORTH ATLANTIC ALLIANCE: SPAIN, PORTUGAL, GREECE AND TURKEY. THESE STRATEGICALLY IMPORTANT

NATIONS ARE FORMALLY COMMITTED TO COLLECTIVE SECURITY UNDER THE NORTH ATLANTIC TREATY; THREE ARE PARTICIPANTS IN NATO'S INTEGRATED MILITARY STRUCTURE. OUR PROGRAMS ENHANCE THEIR ABILITY TO CONTRIBUTE TO THE ALLIANCE'S STRATEGY OF DETERRENCE AND DEFENSE AGAINST THE THREAT OF SOVIET AGGRESSION -- A STRATEGY WHICH HAS SUCCESSFULLY SERVED THE CAUSE OF PEACE FOR FORTY YEARS AND IN WHICH SECURITY ASSISTANCE HAS PLAYED A PIVOTAL ROLE. IN MORE SPECIFIC TERMS, THE PROGRAMS WILL PROVIDE FINANCING FOR THE PROCUREMENT OF MAJOR U.S. WEAPONS SYSTEMS, NOTABLY INCLUDING THE PLANNED ACQUISITION BY TURKEY AND GREECE OF F-16 AIRCRAFT AND SPAIN'S ONGOING PURCHASE OF F-18S.

OUR PROGRAMS IN THESE FOUR NATO NATIONS ALSO REFLECT CLOSE AND SPECIALIZED ARRANGEMENTS FOR BILATERAL COOPERATION. THEY ARE COUNTRIES IN WHICH WE MAINTAIN SIGNIFICANT U.S. MILITARY BASES AND OTHER INSTALLATIONS. THESE FACILITIES NOT ONLY CONTRIBUTE TO U.S. ABILITY TO HELP DEFEND WESTERN EUROPE BUT ARE AN ESSENTIAL ELEMENT IN OUR GLOBAL DEFENSE POSTURE.

IN THE PACIFIC, OUR PROPOSED PROGRAMS SUPPORT THE EQUALLY IMPORTANT BASE ARRANGEMENTS WE HAVE WITH THE REPUBLIC OF THE PHILIPPINES. THE PHILIPPINE NATION IS AN OLD FRIEND AND ALLY. THE STRATEGIC, HISTORICAL AND HUMAN TIES THAT BIND US TOGETHER ARE STRONG. WE HAVE JUST BEEN REMINDED OF HOW REAL THESE TIES ARE, AS WE HAVE WITNESSED AND ADMIRED THE COURAGE OF THE PHILIPPINE PEOPLE AND THEIR DEVOTION TO DEMOCRATIC VALUES. THE NEW GOVERNMENT OF THE PHILIPPINES WILL NEED OUR CONTINUED HELP AND SUPPORT AS IT SETS OUT TO DEAL WITH DEEP-SEATED ECONOMIC AND SOCIAL PROBLEMS AND THE SERIOUS THREAT TO INTERNAL SECURITY AND DEMOCRATIC INSTITUTIONS POSED BY AN ENTRENCHED COMMUNIST INSURGENCY.

IN DJIBOUTI, KENYA, LIBERIA, MOROCCO, OMAN, PANAMA, SOMALIA AND SUDAN, OUR PROPOSED PROGRAMS OF SECURITY ASSISTANCE ARE

TANGIBLE EVIDENCE OF A U.S. COMMITMENT TO THE INTEGRITY AND SECURITY OF THESE COUNTRIES. FOR THEIR PART, THESE COUNTRIES DEMONSTRATE THAT THEY SHARE WITH US IMPORTANT INTERNATIONAL SECURITY GOALS BY MAKING AVAILABLE A RANGE OF FACILITIES TO ENHANCE THE MOBILITY AND STRATEGIC REACH OF U.S. FORCES. THE LINKAGE BETWEEN THE CONTRIBUTIONS ON EACH SIDE MAY NOT ALWAYS BE EXPLICIT, BUT IT IS REAL AND UNDERSTOOD.

IN MANY AREAS OF THE WORLD, FREE AND FRIENDLY NATIONS ARE FACING ACTIVE EXTERNAL AGGRESSION, THE THREAT OF SUCH AGGRESSION, OR EXTERNALLY SUPPORTED INSURGENCY OR SUBVERSION. THESE CONDITIONS NOT ONLY PUT IN JEOPARDY THE SECURITY OF THE INDIVIDUAL COUNTRIES, BUT ALSO UNDERMINE THE SECURITY OF NEIGHBORING AREAS. THEY ARE A CHALLENGE TO FUNDAMENTAL U.S. INTERESTS.

THE FY 1987 PROGRAM PROPOSALS WE HAVE SUBMITTED TO THE CONGRESS WILL HELP DETER NORTH KOREAN AGGRESSION AGAINST THE REPUBLIC OF KOREA AND STRENGTHEN THAILAND'S ABILITY TO DETER AND COUNTER THE SPREAD OF VIETNAMESE AGGRESSIVE ACTIVITIES ACROSS THE THAI BORDER WITH CAMBODIA. THE $501 MILLION COMBINED ESF, FMS AND INET PROGRAM WE ARE PROPOSING FOR PAKISTAN WILL SUPPORT THAT STRATEGICALLY LOCATED COUNTRY IN ITS CONTINUING OPPOSITION TO THE SOVIET INVASION AND OCCUPATION OF AFGHANISTAN, ENCOURAGE INTERNAL ECONOMIC AND POLITICAL DEVELOPMENT AND HELP PROVIDE THE SELF-CONFIDENCE NEEDED TO MAKE PROGRESS IN THE NUCLEAR NON-PROLIFERATION AREA.

CLOSER TO HOME, IN CENTRAL AMERICA, OUR PROGRAMS ARE ESSENTIAL. EL SALVADOR'S EFFORTS TO DEAL WITH AN EXTERNALLY SUPPORTED GUERRILLA AND TERRORIST THREAT AND TO PRESS FORWARD WITH POLITICAL, ECONOMIC AND SOCIAL REFORMS TO MEET THE UNDERLYING CAUSES OF UNREST DIRECTLY DEPEND ON THESE PROGRAMS. OUR PROGRAMS OVER THE PAST FOUR YEARS HAVE ALLOWED THE

SALVADORANS TO GAIN THE MILITARY INITIATIVE AND MAKE AN ENORMOUSLY IMPRESSIVE START TOWARDS BUILDING PERMANENT DEMOCRATIC INSTITUTIONS. REDUCING OR CURTAILING THIS PROGRAM NOW WOULD MEAN THE ABANDONMENT OF OUR CONSIDERABLE INVESTMENT IN RESOURCES AND SOME BLOOD. WORSE, IT WOULD MAKE A MOCKERY OF THE ENORMOUS SACRIFICES THE SALVADORANS HAVE MADE TO BUILD A FUTURE IN A FREE SOCIETY. OUR PROPOSALS WILL PROMOTE SIMILAR ECONOMIC AND INSTITUTIONAL REFORMS IN HONDURAS AND SUSTAIN THE ABILITY OF BOTH HONDURAS AND COSTA RICA TO MEET THE THREAT POSED BY THE EXCESSIVE AND EXPANDING MILITARY FORCES OF THE SANDINISTA REGIME IN NICARAGUA.

U.S. ASSISTANCE PLAYS A KEY ROLE IN SUSTAINING THE SELF DEFENSE CAPABILITIES OF TUNISIA, A VOICE FOR MODERATION IN THE ARAB WORLD. THIS FRIENDLY COUNTRY FACES A CONTINUING THREAT FROM THE AGGRESSIVE POLICIES OF ITS NEIGHBOR, LIBYA. SIMILARLY, OUR LOGISTICS SUPPORT PROGRAMS FOR CHAD WILL COMPLEMENT THE DIRECT COMBAT SUPPORT EFFORTS OF FRANCE AND HELP STRENGTHEN THE HAND AND THE WILL OF THE CHADIAN GOVERNMENT AGAINST THE THREAT OF RENEWED ATTACKS BY LIBYAN-SUPPORTED REBELS. OUR PROPOSED PROGRAM FOR THE YEMEN ARAB REPUBLIC WILL IMPROVE THE DEFENSIVE POSTURE OF THIS BUFFER STATE BETWEEN A MARXIST AND NEWLY UNSTABLE AND RADICALIZED SOUTH YEMEN AND MODERATE NATIONS OF THE RED SEA LITTORAL. IT WILL HELP BALANCE SOVIET INFLUENCE IN THAT COUNTRY AND REGION.

IN A LARGE NUMBER OF RECIPIENT COUNTRIES THE BROAD GOAL OF OUR SECURITY ASSISTANCE CAN BE CATEGORIZED AS "REGIONAL STABILITY." THE PROGRAMS WILL HELP THESE COUNTRIES TO DEVELOP A CREDIBLE CAPABILITY FOR SELF DEFENSE AND AT THE SAME TIME ENCOURAGE THE IMPLEMENTATION OF BROAD REFORMS TO ADDRESS THE IMBALANCES AND INJUSTICES WHICH BREED INTERNAL UNREST AND INTERNATIONAL TENSIONS.

AMONG OUR NEIGHBORS AND FRIENDS OF THE CARIBBEAN, FOR

EXAMPLE. OUR PROPOSED PROGRAMS WILL SUPPORT THE DEMOCRATIC GOVERNMENT OF THE DOMINICAN REPUBLIC AS IT PURSUES THE DIFFICULT AUSTERITY MEASURES OF A COMPREHENSIVE ECONOMIC ADJUSTMENT PROGRAM. THEY WILL PLAY A SIMILAR SUPPORTING ROLE IN JAMAICA'S ONGOING ECONOMIC REFORM EFFORTS AND HELP SUSTAIN THE JAMAICA DEFENSE FORCE AS A MAJOR PLAYER IN CARIBBEAN COLLECTIVE SECURITY EFFORTS. IN GRENADA, AND THE SIX OTHER MINI-STATES OF THE EASTERN CARIBBEAN, WE PROPOSE A CAREFULLY TAILORED PACKAGE OF ESF, MAP AND IMET THAT WILL PROMOTE DEVELOPMENT AND HELP THESE ISLANDS MEET MINIMUM DEFENSE REQUIREMENT TO DETER INTERNAL AND EXTERNAL THREATS.

COMPLEMENTING OUR OTHER PROGRAMS IN CENTRAL AMERICA, WE ARE PROPOSING BOTH MILITARY AND ECONOMIC ASSISTANCE TO GUATEMALA. WE RECOGNIZE THAT THE MILITARY COMPONENT IS CONTROVERSIAL. HOWEVER, IN THE LIGHT OF EXPERIENCE IN OTHER COUNTRIES, WE BELIEVE THAT SUCH ASSISTANCE, CHANNELLED THROUGH CIVILIAN AUTHORITIES, CAN DO MUCH TO HELP CONSOLIDATE RESPECT FOR DEMOCRATIC PRINCIPLES AND INSTITUTIONS AND CONTRIBUTE OVERALL TO THE STABILITY OF THE REGION.

OUR FOREIGN MILITARY SALES PROGRAMS FOR INDONESIA AND MALAYSIA SUPPORT THE MILITARY MODERNIZATION EFFORTS OF THOSE STRATEGICALLY LOCATED COUNTRIES AND ENCOURAGES THEIR CONTINUING ROLES AS MODERATE AND CONSTRUCTIVE PARTICIPANTS IN THE NON-ALIGNED MOVEMENT. OUR PROPOSED ASSISTANCE TO BURMA AND THE ANDEAN COUNTRIES OF SOUTH AMERICA WILL STRENGTHEN THE RESPECTIVE GOVERNMENTS IN THEIR EFFORTS BOTH TO COMBAT INSURGENCIES AND CONTROL NARCOTICS PRODUCTION AND TRAFFICKING.

OUR PROGRAMS IN MANY COUNTRIES OF SUB-SAHARAN AFRICA SEEK TO ENCOURAGE REGIONAL STABILITY PRIMARILY THROUGH ECONOMIC AND SOCIAL DEVELOPMENT. THESE COUNTRY-SPECIFIC EFFORTS WILL BE

COMPLEMENTED BY THE AFRICA ECONOMIC POLICY REFORM PROGRAM WHICH ADDRESSES STRUCTURAL ECONOMIC PROBLEMS BY PROVIDING FAST-DISBURSING ESF FUNDS AS INCENTIVES TO GROWTH-ORIENTED CHANGES IN POLICY. AND IT PROMOTES BETTER COORDINATION WITH OTHER DONORS OF AID TO THE CONTINENT. THE SOUTHERN AFRICA REGIONAL PROGRAM INCLUDES ECONOMIC AND DEVELOPMENTAL ASSISTANCE TO THOSE COUNTRIES WHO CONTRIBUTE TO CONSTRUCTIVE SOLUTIONS TO THE PROBLEMS OF SOUTHERN AFRICA AND ASSISTANCE IN EDUCATION AND OTHER AREAS FOR SOUTH AFRICANS WHO SUFFER UNDER APARTHEID.

IN MANY COUNTRIES, ESPECIALLY THOSE WITHIN THE DEVELOPING WORLD, OUR SECURITY ASSISTANCE RELATIONSHIP IS ESSENTIALLY LIMITED TO RELATIVELY SMALL-SCALE ACTIVITIES UNDER THE INTERNATIONAL MILITARY EDUCATION AND TRAINING, OR IMET, PROGRAM. THIS VERY COST-EFFECTIVE VEHICLE PRODUCES IMMEDIATE GAINS IN ENHANCED MILITARY SKILLS AND PROFESSIONALISM IN FRIENDLY PARTICIPATING COUNTRIES. IT EXPOSES A KEY SEGMENT OF FOREIGN SOCIETIES TO U.S. STRATEGIC THINKING AND TO AMERICAN POLITICAL AND HUMANITARIAN VALUES. MOST IMPORTANTLY, IT FORGES LASTING PERSONAL TIES THAT CAN PROVIDE ACCESS TO FUTURE LEADERS AND FACILITATE A RANGE OF CONSTRUCTIVE BILATERAL RELATIONS THROUGH YEARS TO COME.

AT THIS POINT, MR. CHAIRMAN, I WOULD LIKE TO DISCUSS BRIEFLY A FEW OF THE MORE IMPORTANT SECURITY ASSISTANCE MECHANISMS THAT ALLOW US TO MAXIMIZE THE EFFECTIVENESS OF OUR PROGRAMS IN A WAY THAT DOES NOT CAUSE LONGTERM ECONOMIC SUFFERING TO OUR SECURITY PARTNERS.

AS I NOTED EARLIER, THE LEGISLATIVE MODIFICATIONS OF RECENT YEARS HAVE PROVIDED US WITH MUCH GREATER FLEXIBILITY TO TAILOR OUR PROGRAMS TO SPECIFIC COUNTRY SITUATIONS AND TO THE BROAD POLICY GOALS WE ARE PURSUING. WITHIN THE FUNDED PROGRAMS, WE

SEEK WHERE APPROPRIATE A PRUDENT AND EFFECTIVE DEGREE OF CONCESSIONALITY IN THE MIX OF GRANTS AND LOANS. NOTABLE AMONG THE INNOVATIONS THAT ARE BEING USED TO GOOD EFFECT ARE THE "FORGIVEN" FMS CREDITS FOR ISRAEL AND EGYPT, AND THE ABILITY TO PROVIDE A CERTAIN AMOUNT OF CONCESSIONAL RATE CREDIT TO THOSE COUNTRIES WHO, TO ONE DEGREE OR ANOTHER, CAN PAY THEIR OWN WAY ON MAJOR DEFENSE ACQUISITIONS BUT CANNOT UNDERTAKE THE CREDIT BURDEN REPRESENTED BY TREASURY RATES OF INTEREST. EXPERIENCE HAS NOW SHOWN THAT THE CONCESSIONAL ALTERNATIVE MEETS A GENUINE NEED, BUT THE AVAILABILITY OF THIS TYPE OF CREDIT FELL SHORT OF THAT NEED IN FY 1986. OUR PROJECTIONS INDICATE THAT REQUIREMENTS FOR CONCESSIONAL CREDIT WILL GROW RATHER THAN DIMINISH IN THE COMING YEAR, AND I STRONGLY URGE THE SUBCOMMITTEE TO GIVE FAVORABLE CONSIDERATION TO OUR REQUEST FOR AN INCREASE IN THE CONCESSIONAL CEILING FOR FY 1987.

WE SHARE THE CONCERN OF MANY IN CONGRESS THAT OUR SECURITY ASSISTANCE LOANS NOT ADD UNDULY TO THE SIGNIFICANT FOREIGN DEBT BURDEN ALREADY BEING SUSTAINED BY MANY OF OUR MAJOR PROGRAM PARTICIPANTS. IT IS, INDEED, THIS CONCERN THAT LIES BEHIND OUR REQUEST FOR EXPANDED AUTHORITY FOR CONCESSIONAL LENDING, AND WHICH HAS INFLUENCED OUR HIGHER REQUEST LEVELS FOR THE GRANT MILITARY ASSISTANCE PROGRAM. WE ARE MONITORING THE COUNTRY IMPACT OF SECURITY ASSISTANCE LOANS ON A CONTINUING BASIS, AND THIS IMPACT IS IN THE FOREFRONT OF THE VARIOUS CONSIDERATIONS WE TAKE INTO ACCOUNT IN FORMULATING COUNTRY PROGRAM PROPOSALS. IN ADDITION, WE ARE UNDERTAKING A MORE COMPREHENSIVE ANALYSIS OF THE FOREIGN DEBT PROBLEM AND POSSIBLE SOLUTIONS. WITHIN THE COMING MONTHS, WE EXPECT TO SHARE WITH YOU SOME OF THE INSIGHTS AND CONCLUSIONS THAT EMERGE FROM THIS EFFORT.

IT IS CLEAR BOTH TO US, AND OUR FOREIGN PARTNERS, THAT THE SPECIAL DEFENSE ACQUISITION FUND (SDAF) IS BECOMING AN EFFECTIVE MECHANISM FOR PROVIDING TIMELY SUPPORT OF VALID DEFENSE

REQUIREMENTS. AS SDAF ITEMS ARE NOW BEGINNING TO COME OFF THE PRODUCTION LINE, WE ARE ABLE TO SHORTEN DELIVERY LEAD TIME AND INTRODUCE A REAL REVOLVING ASPECT INTO SDAF. TO ENSURE THAT THIS TREND CONTINUES WE NEED MOST OF ALL A TWO-YEAR OBLIGATIONAL AUTHORITY SO THAT WE MAY BETTER SYNCHRONIZE SDAF PROCUREMENTS WITH THOSE OF OUR MILITARY DEPARTMENTS. IN ADDITION WE ARE REQUESTING $350 MILLION IN OBLIGATION AUTHORITY FOR FY 1987, A LEVEL THAT CAN BE SUPPORTED WITH THE CAPITAL AND RECEIPTS FROM SDAF SALES -- WITHOUT APPROPRIATIONS.

AT THE OUTSET OF THESE REMARKS I CITED WITH SATISFACTION THE CONSTRUCTIVE INTERACTION OF THE ADMINISTRATION AND CONGRESS ON THE LAST FIVE YEARS' SECURITY ASSISTANCE AGENDA AND THE RESULTING EXPANSION AND IMPROVEMENTS IN THE PROGRAM. THIS CHARACTERIZATION IS AN ACCURATE ONE IN TERMS OF THE OVERALL PICTURE AND THE PREVAILING TREND LINE. I MUST, HOWEVER, UNDERSCORE WITH EQUAL FRANKNESS THAT THE FY 1986 LEGISLATION PRODUCED SERIOUS SHORTFALLS IN FUNDING FOR MANY OF OUR MAJOR PROGRAMS.

EARMARKING, CEILINGS AND RESTRICTIVE PROVISOS FURTHER COMPLICATE THE PROBLEM POSED BY PROGRAM REDUCTIONS. WHILE EACH OF THESE HAS ITS PERSUASIVE RATIONALE, AND OFTEN RESPONDS TO GENUINE CONCERNS WHICH THE ADMINISTRATION SHARES WITH THE CONGRESS, THE CUMULATIVE EFFECT IS A MARKED INCREASE IN THE LEGAL AND SYSTEMIC RIGIDITIES TO BE FACED IN MAKING THE DIFFICULT, BUT NECESSARY TRADEOFFS OF COMPETING DEMANDS, IN RESPONDING TO UNFORESEEN NEEDS AND IN CAPITALIZING ON SHORT-LIVED OPPORTUNITIES.

IF WE ARE TO CONTINUE TO UTILIZE SECURITY ASSISTANCE AS A HIGHLY EFFECTIVE TOOL OF U.S. FOREIGN AND DEFENSE POLICY -- AND IT IS IMPERATIVE THAT WE DO -- WE MUST NOT ONLY HAVE ADEQUATE RESOURCES, BUT A LEGISLATIVE MANDATE THAT IS SUFFICIENTLY

FLEXIBLE TO ALLOW EFFICIENT MANAGEMENT OF THESE RESOURCES TO MEET POLICY IMPERATIVES.

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, OUR SECURITY ASSISTANCE PROGRAM FOR FISCAL YEAR 1987 WAS DEVELOPED IN FULL RECOGNITION OF THE FUNDING CONSTRAINTS THAT FACE US ALL. BUT, IT IS A STRONG AND ASSERTIVE U.S. RESPONSE TO THE SERIOUS AND COMPLEX NEEDS THAT MUST BE ADDRESSED; WE CANNOT WALK AWAY FROM OUR RESPONSIBILITIES. LIKE THE DEFENSE BUDGET, SECURITY ASSISTANCE IS AN INVESTMENT IN THE PRESERVATION OF THE FREEDOMS AND WELL BEING OF OUR NATION AND PEOPLE. IT ENCOURAGES AND MAKES POSSIBLE OTHER COUNTRIES' CONTRIBUTIONS OF HUMAN AND MATERIAL RESOURCES TO COMPLEMENT U.S. EFFORTS IN THE PURSUIT OF SHARED GOALS.

THE PROBLEMS AND THREATS THAT SECURITY ASSISTANCE ADDRESSES ARE REAL AND CANNOT BE IGNORED. WE MUST BUILD ON PAST SUCCESSES AND BE PREPARED TO MEET UPCOMING CHALLENGES. FAILURE TO MOVE AHEAD STEADILY MEANS LOSING GROUND, AND WOULD HAVE SERIOUS CONSEQUENCES. I STRONGLY URGE THE SUPPORT OF THIS SUBCOMMITTEE, AS WELL AS THAT OF YOUR COLLEAGUES IN THE CONGRESS, FOR OUR PROGRAM PROPOSALS.

MR. CHAIRMAN, THAT COMPLETES MY PREPARED REMARKS. I WILL BE HAPPY TO RESPOND TO YOUR QUESTIONS AND TO THOSE OF THE OTHER MEMBERS OF THE SUBCOMMITTEE. I HOPE THAT WE WILL BE ABLE TO WORK TOGETHER OVER THE NEXT SEVERAL MONTHS TO CRAFT A SECURITY ASSISTANCE PROGRAM FOR FY 1987 THAT IS RESPONSIVE BOTH TO FISCAL AND TO NATIONAL SECURITY POLICIES.

DEPARTMENT OF DEFENSE

DEFENSE SECURITY ASSISTANCE AGENCY

STATEMENT OF LT. GEN. PHILIP C. GAST, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

CONGRESSIONAL PRESENTATION DOCUMENT

Senator KASTEN. General.

General GAST. Mr. Chairman, thank you. It is a pleasure to provide testimony before your committee again this year.

Largely at the recommendations of your committee, we have, in fact, produced a new congressional presentation document this year, which we believe is a significant improvement over last year's, and previous years. The intent is to provide the Congress with far more information, not only on the rationale of the program, but how it serves our foreign policy and defense interests, and also provides some needed data.

We recognize that there will be more information that will be required, and we will continue to work with your staff and others to improve upon it.

I will briefly reinforce Dr. Schneider's points, both from the Defense and the State Department's point of view.

CHART 1

CHALLENGES TO PEACE

General GAST. These are the major challenges to peace as we see it going into this year and continuing. We have listed the problem countries, as well as those countries where there is instability and terrorism and narcoterrorism.

We point out once again that North Korea continues to pose a great threat to South Korea, largely supported and equipped now by the Soviet Union. Vietnam, of course, this is something that we must address, Afghanistan and the Soviet influence there, Syria, Libya, Ethiopia, South Yemen. Then, also, the Gulf war, Angola, Cuba, and Nicaragua, and then El Salvador. These are not by any means all of the areas in the President's budget request, but they do significantly show the importance of continued constancy in our foreign assistance.

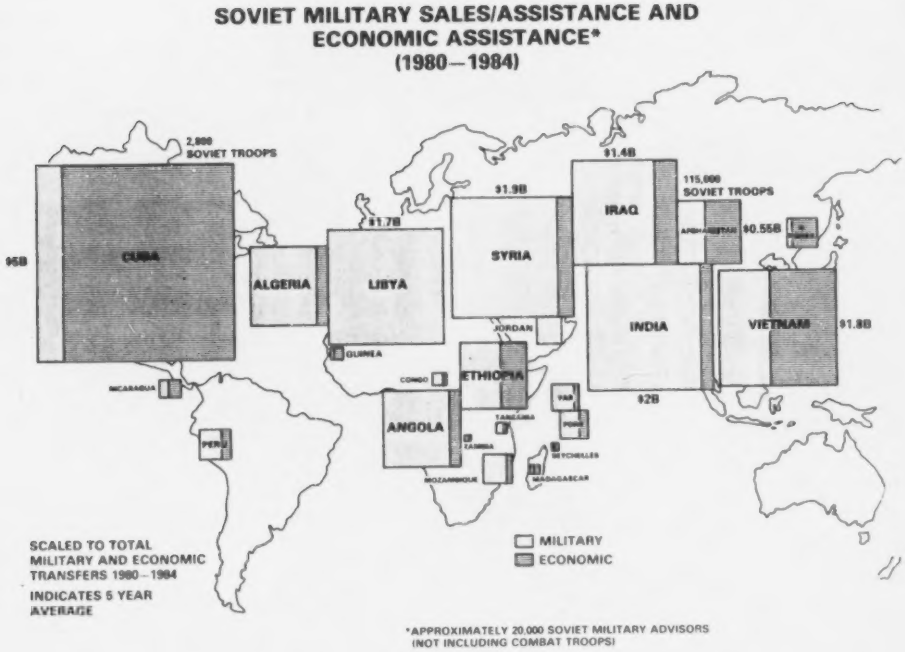


CHART 2

SOVIET ASSISTANCE

General GAST. There is a striking similarity between the previous map and how the Soviet Union provides aid. You will notice that in almost every situation that I have described, it is adjacent or very near to where the Soviet Union provides assistance. I show in red the military assistance, and I show in green the economic. You will see the large amount of aid going to North Korea, Afghanistan, Iraq, Vietnam, and Syria. In addition to 115,000 Soviet troops in Afghanistan, there are Soviet advisers in Libya, Angola, Ethiopia, and right in our own neighborhood, the Southern Hemisphere, in Nicaragua.

In fact, the Soviet Union provides to the region as many advisers as we do on a worldwide basis, to include all of Latin America, Cuba, and Nicaragua.

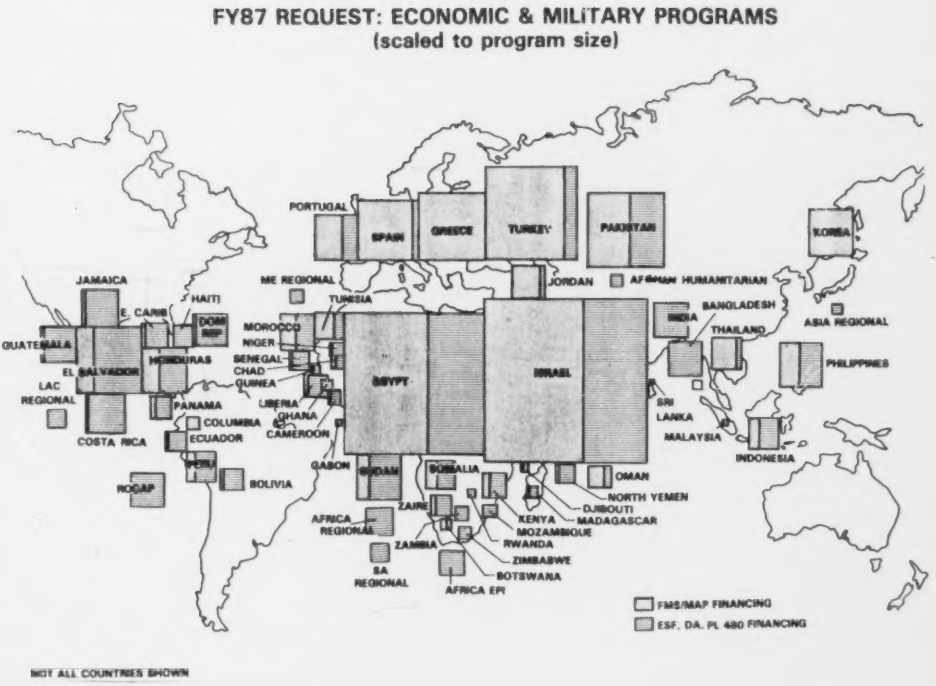


CHART 3

ADMINISTRATION PROPOSALS

General GAST. This is the package proposed by the President. I have put in red the FMS/MAP financing and IMET. The blue shows the economic funds that are in the President's request, including ESF, DA, Public Law 480, and so forth. It is, I believe, a balanced budget. It recognizes those countries that can afford to pay cash. For example, in Korea, it is all FMS credits. We have no economic assistance there. However, the Philippines and other countries are largely on military assistance because of their economy. Egypt and Israel are pretty well balanced.

If you go into southern Africa, and if you look into the Western Hemisphere, you will find that the ratio, particularly in all of Latin America, is about 4.5 to 1 for economic over military assistance.

CHART 4

ACHIEVED OBJECTIVES

General GAST. We believe that under this administration, with congressional support we have significant objectives that have been achieved. On this chart, I have colored blue, deterrence and peace maintained; the red is conflicts managed or contained; and defense cooperation and coalitions are shown in green.

When one looks at the regions, the Mediterranean Littoral, the Mideast, Southwest Asia, East Asia and the Pacific, and Central America, one can see a mixture of foreign policy and defense successes. There have been some failures to be sure, but in the main there has been a successful program with congressional support and appropriations. Soviet plans have been challenged, alternatives to the Soviets have been offered. Soviet aggression has been contained.

FY 1987 FMS/MAP FINANCING REQUEST
(SCALED TO FINANCING)

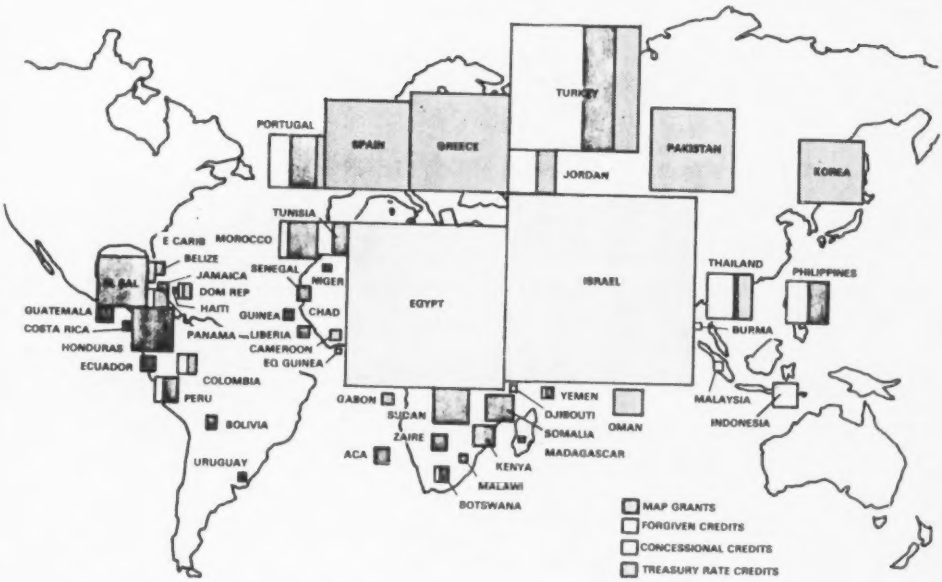


CHART 5

FMS/MAP FINANCING

General GAST. The chart before you reflects, again to scale, the budget before you today in the form of FMS/MAP. You can see that in response to the debt burden that Dr. Schneider spoke of earlier, Egypt and Israel credits are forgiven credits. They receive about 48 percent of the budget. There are only five countries where 10 percent or more of their foreign debt is FMS, such as Turkey. We have a sizable portion of funds here for Greece to maintain the alliance, as well as sizable programs in Pakistan, Korea, and Portugal.

Over in Latin America, again we reflect a high economic content in the sense that it is MAP and/or concessional credits. For the Special Defense Acquisition Fund [SDAF], we do need the $350 million that Dr. Schneider has talked about. The point about the 2-year obligation authority we are requesting is to enable us to be able to manage the program more effectively. Today, with a 1-year obligation authority, we must spend the money in 1 year, or lose it. It sometimes can lead to unwise purchases, and certainly ineffective use of the funds.

There were considerably less moneys appropriated last year than were in the President's request, and I would like to address the impact of those reductions.

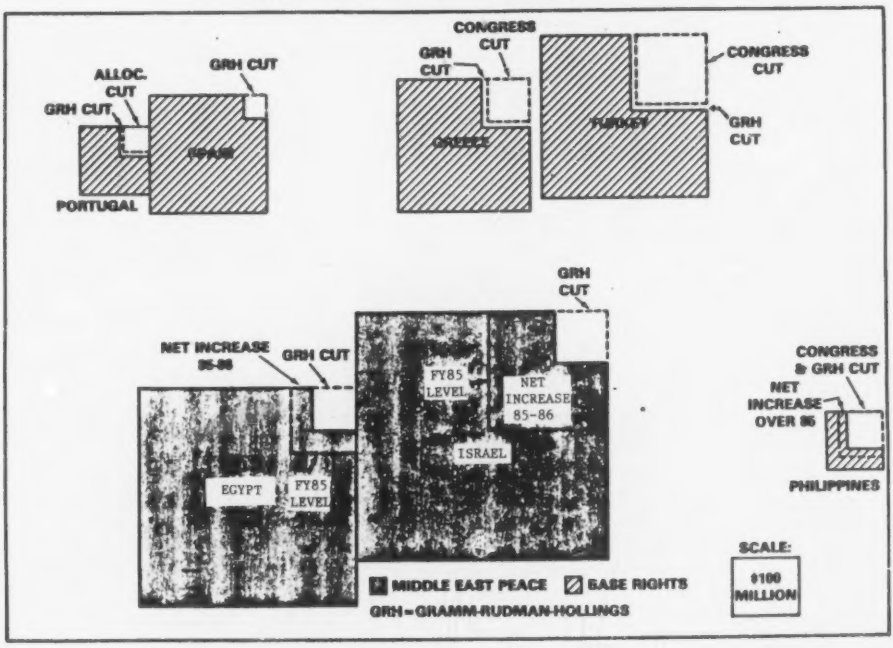


CHART 6

INCREASED FUNDING IN ISRAEL AND EGYPT

General GAST. I show here the larger countries in the world, and I show that in Egypt and Israel there were increases in funds this year. This notch at the upper right hand corner reflects the 4.3-percent reduction mandated by Gramm-Rudman-Hollings.

These increases for Israel and Egypt in the overall budget were needed and justified. However, the result of the overall reductions was a significant cut in other countries. For example, in Turkey there was a mandated cut by Congress to roughly $615 million. Congress also reduced Greece significantly. In Spain and in Portugal, we fairly well maintained what the President had requested. In Portugal, we did have to make a cut because we were faced with worldwide priorities in how to distribute the moneys that we were provided by Congress.

The impact of protecting these programs was to require more severe reductions in the rest of the world, generally.

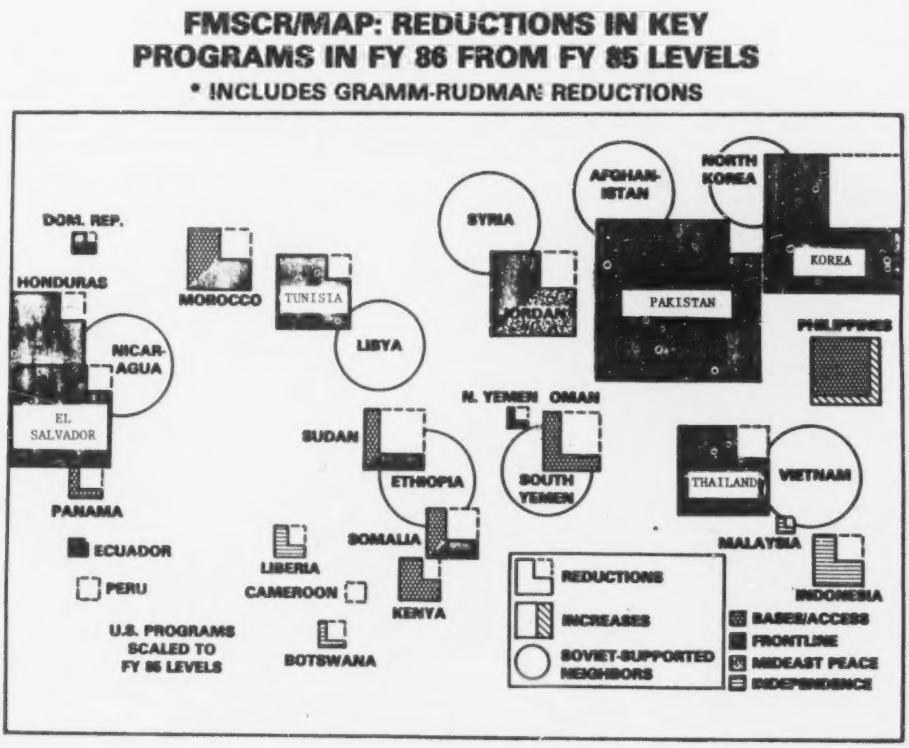


CHART 7

MIDDLE EAST CATEGORIES

General GAST. Here I have indicated those countries that we categorize as base access, frontline, Middle East peace, and supporting independence. You will recall the circles that I mentioned to you earlier, the threats from unfriendly neighbors. You will note that in Korea, we were required to reduce funding to 30 percent below the President's request. Pakistan was earmarked. Thailand, we were able to protect, but we could not protect Indonesia. In Jordan, we had a significant reduction, although we tried hard to maintain it in our distribution.

In Oman, there was a 50-percent cut; North Yemen, 60 percent; Sudan, some 40 percent; and Somalia, 50 percent. Large reductions were necessary in Kenya, Botswana, and Liberia. Tunisia was earmarked, but in Morocco we had to take a cut in order to distribute the funds, primarily to protect Central America. We were unable to fund the other Latin American countries to any significance at all.

The impact of this, of course, has been significant. The countries have looked to us now, and are wondering what is going to happen next year. They are particularly concerned with this year, and many of them had to scrap their defense plan, and will have to start over. They are concerned about our commitment and our support.

CHART 8

TURKEY

General GAST. I want to mention two areas, not to slight Greece and its importance and its importance to the alliance, which we all support, but also to mention Turkey, the area that she sits astride, and the need for Turkish Armed Forces modernization.

As you can see, the threats are there. As a result of the congressionally mandated cut plus Gramm-Rudman-Hollings, we had to reduce the available funds for Turkey to some $615 million. That means that those funds will barely sustain the programs that are already there. It means that there will be no increases in modernization. We will continue with the F–16, a modest tank program, and a small navy program.

If the funding levels stay where they are, it will mean that obsolescence will grow, and will not be improved. If there is a cut, it means that many of the programs run the risk of being canceled.

LATIN AMERICA: CHALLENGES

CHART 9

LATIN AMERICA

General GAST. Another area, in another part of the world, is Central America and Latin America, and I have divided these into three areas: the eastern Caribbean, Central America, and Latin America. These are the sore points that exist, and the outside efforts that are coming into them. We need to continue the modernization of those countries that border on Nicaragua so as to give them the confidence and the faith to stand up to them. There is the $100 million for the Contras, of course, that the President is supporting through another program. We also need to be able to get on in Latin America, to address the drug problem, the terrorism, and the subversiveness that are all common characteristics of that particular part of the world that we were unable to address last year, but which are in the budget this year.

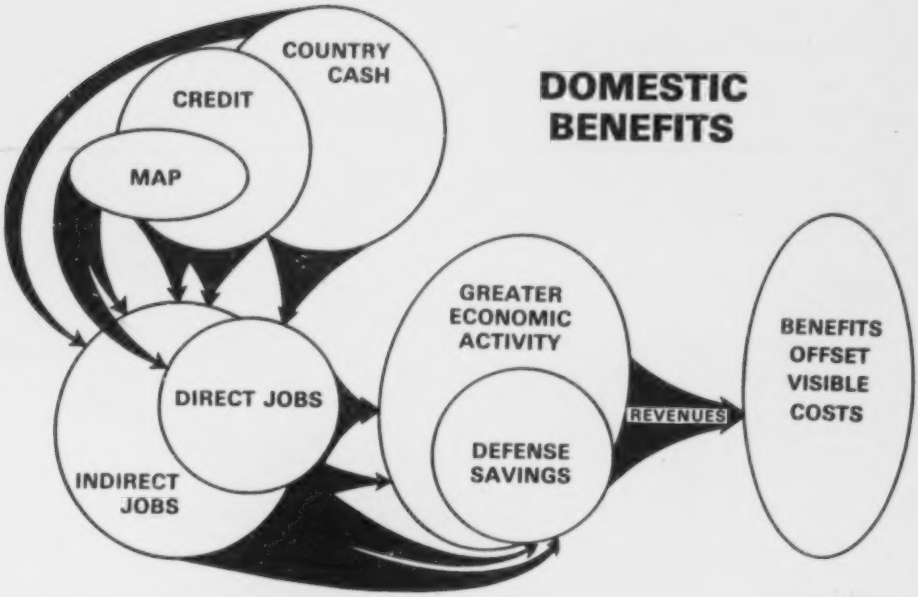


CHART 10

FOREIGN AID

General GAST. We all know that the foreign aid bill, our own policy and our defense policy are not pursued to create jobs, but there is a view among some people that this is a give-away program, and I want to argue that it is not. When we consider our security assistance program, we have to consider the fact that 60 percent of the $12 billion we sell each year is purchased, in the United States, with cash by countries. If we did not have a foreign aid bill, and if we did not have an FMS system, as established by Congress, it would be far less.

When you put all of that money together, the jobs that it provides, and the tax receipts, we believe that there is a plus effect on the economy, and the deficit is not connected to it. The point is, if you use the tax multiplier, even this part here, and we have been very conservative, the $6 billion that falls in the FMS Credit/MAP category, you will come up with a deficit of about $2 billion. If you add the FMS trust fund, which is largely provided by the cash countries and which is $4 billion, it can be argued that there is a plus of $2 billion, instead of a negative.

Senator DECONCINI. How do you get that? Would you do that again for us?

General GAST. For example, on a MAP program—by the way, sir, virtually all of the money that is appropriated by Congress is spent here in the United States. We do not allow it to get out of the country, with very, very few exceptions.

Senator DECONCINI. What I want to know is how it results not in a minus, but a plus.

General GAST. The tax receipts on sales, for example, bring back about 50 cents on a dollar. If it is concessional funding, it brings back about 80 to 90 cents on a dollar. If it is credit, it brings $1.50 back on a dollar. All of that adds up, even if you give to Israel and Egypt $3 billion. When it all computes up on a conservative model, there is about $1.5 to $2 billion negative flow into the treasury. But there is $4 billion in the trust funds from the cash countries, which make it a plus $2 billion. The $4 billion which remains in the trust fund is not counted against the deficit.

Senator DECONCINI. That is each year?

General GAST. Yes.

CHART 11

CHALLENGES

General GAST. The challenges ahead are well known to us. The challenges are the assistance that we must provide to the Philippines, to Thailand, preserving the peace in Korea, Pakistan, containing the Gulf War, maintaining access to our air bases, the Arab-Israeli situation, terrorism, which is of great concern to everyone, isolating Libya, Central America and ending the traffic in drugs. As to how much of this we will be able to fund, not only in the aggregate, but also to meet each one of these challenges, remains the chief Washington issue this year.

[The prepared statement of General Gast follows:]

PREPARED STATEMENT OF LT. GEN. PHILIP C. GAST

DIRECTOR

DEFENSE SECURITY ASSISTANCE AGENCY

THANK YOU MR. CHAIRMAN. I WELCOME THE OPPORTUNITY TO COME BEFORE YOU AGAIN TO DISCUSS THE SECURITY ASSISTANCE PROGRAM. IN TERMS OF NATIONAL STRATEGY, SECURITY ASSISTANCE IS ONE OF THE MOST CRUCIAL PROGRAMS WE HAVE; UNFORTUNATELY, IT IS ALSO ONE OF THE LEAST UNDERSTOOD. THIS YEAR'S MILITARY PROGRAM OF $6.8 BILLION MAKES A CRITICALLY-NEEDED CONTRIBUTION TO THE DEFENSE OF THE U.S.; WITHOUT IT, OUR OVERALL DEFENSE EFFORT WOULD HAVE TO BE INCREASED BY A SUBSTANTIALLY LARGER AMOUNT.

CHART 1: SECURITY ASSISTANCE - CONTRIBUTION TO NATIONAL DEFENSE

SECURITY ASSISTANCE

— COST EFFECTIVE CONTRIBUTION TO NATIONAL DEFENSE —

DETERRENCE

- DEFENSE COOPERATION - - BASE RIGHTS
- MIDDLE EAST PEACE
- ISOLATING RADICAL STATES

CONFLICTS

- CONTAINING AGGRESSION AT LOWEST LEVEL
- COMBATTING INSURGENCIES
- COPING WITH TERRORISM

I AM SURE YOU RECOGNIZE THE DIFFICULTIES IMPOSED UPON OUR REQUESTED PROGRAM THIS YEAR BY THE GRAMM-RUDMAN-HOLLINGS BUDGET CONSTRAINTS. WE HAVE COMPLIED WITH THOSE CONSTRAINTS FULLY, DESPITE THE PRESSURES OF OUR RESPONSIBILITIES AND THE PERILOUS

NATURE OF A WORLD FILLED WITH WARS, TERRORISM, AND THE VIOLENT EXPLOITATION OF SOCIAL AND ECONOMIC ILLS BY THOSE WHO OPPOSE OUR MOST BASIC VALUES.

CHART 2: MAJOR CHALLENGES TO THE PEACE

WE SEE HERE THE WELL-KNOWN TROUBLE SPOTS. FIRST, REPRESENTED BY THE RED CIRCLES ARE THE PROBLEM COUNTRIES SPREAD IN A BAND ACROSS THE CENTER OF THE GLOBE. THESE NATIONS ARE OFTEN THE SOURCE OF THE MILITARY THREATS TO OUR FRIENDS; SOME OF THEM ARE ALSO THE SOURCE OF ANOTHER WORLDWIDE PROBLEM, REPRESENTED BY THE RECTANGLES --TERRORISM THAT THREATENS THE INNOCENT. FINALLY, WE SEE THE YELLOW TRIANGLES THAT REPRESENT THE MAJOR INSTABILITIES THAT CONCERN US.

STARTING IN THE FAR EAST WE SEE TWO OF THE MOST THREATENING NATIONS, NORTH KOREA AND VIETNAM. MOVING DOWN, WE ARE ALL FAMILIAR

WITH THE PROBLEMS CONFRONTING THE PHILIPPINES. I BELIEVE NONE OF US IN THIS ROOM WANTS TO SEE THE PHILIPPINE PEOPLE HAVE THEIR FUTURE DECIDED BY THE COMMUNIST INSURGENCY, WHICH CURRENTLY EXACERBATES THEIR OTHER, WELL-KNOWN DOMESTIC DIFFICULTIES. ONE THING IS CERTAIN: THE COMMUNIST INSURGENTS WILL CONTINUE THEIR RELENTLESS DRIVE TO SEIZE POWER. THEY WILL SEEK TO EXACERBATE FISSURES IN PHILIPPINE SOCIETY AND THEY WILL EXPLOIT ANY WEAKNESSES IN THE ABILITY OF THE ARMED FORCES OF THE PHILIPPINES TO DEFEND THAT SOCIETY.

OUR SECURITY ASSISTANCE PROGRAM WILL BE RESPONSIVE TO THE NEEDS OF THE AFP AND THE REQUESTS OF THE AQUINO GOVERNMENT. WE ARE CONTINUING TO MONITOR THE SITUATION IN THE PHILIPPINES. AT THIS STAGE, WE SEE THE REQUIREMENTS OF THE AFP TO BE THE CORRECTION OF DEFICIENCIES IN TRANSPORTATION, COMMUNICATION, LOGISTIC SUPPORT, TRAINING, AND TROOP WELFARE.

EAST ASIA AND THE PACIFIC HAVE IMPORTANT ECONOMIC AND SECURITY TIES TO THE U.S. BY USING SECURITY ASSISTANCE TO HELP SOUTH KOREA MAINTAIN DETERRENCE AND THAILAND AND THE PHILIPPINES COPE WITH ON-GOING CONFLICTS AND THREATS, WE DETER HOSTILE INTERFERENCE WITH THE INDEPENDENCE AND STABILITY OF THESE COUNTRIES AND CONTRIBUTE DIRECTLY TO OUR OWN DEFENSE AS WELL.

THE SOVIET PRESENCE IN AFGHANISTAN, THE PERSISTENT IRAN-IRAQ WAR, AND THE OMINOUS INSTABILITY OF MARXIST SOUTH YEMEN MAKES THE OIL-RICH SOUTHWEST ASIA REGION A PARTICULARLY VOLATILE AREA. OUR SECURITY ASSISTANCE AND ARMS SALES PROGRAMS IN THIS REGION HELP CONTAIN THE VIOLENCE AND ENABLE US TO BOLSTER LOCAL DETERRENCE WHILE COMPLEMENTING OUR SOUTHWEST ASIA STRATEGY. NEARBY ETHIOPIA, THE SOVIET UNION'S MAJOR CLIENT IN SUB-SAHARAN AFRICA, CONTINUES TO THREATEN THE PEACE ON THE HORN DESPITE ITS OWN PROBLEMS WITH FAMINE.

CLOSER TO HOME, OUR SECURITY ASSISTANCE THROUGHOUT CENTRAL AMERICA HAS MADE IMPRESSIVE STRIDES IN COMBATTING INSURGENCY,

SUPPORTING DEMOCRACY AND IMPROVING ECONOMIC CONDITIONS, ESPECIALLY IN EL SALVADOR. HOWEVER, WE MUST BE EVER COGNIZANT OF NATIONS IN THE REGION INTENT UPON CREATING TROUBLE AND INSTIGATING VIOLENCE IN THE HEMISPHERE. WE KNOW THAT CUBA HAS LONG BEEN AN ADVERSARY BUT WE NOW MUST BE MINDFUL OF THE SANDINISTAS IN NICARAGUA AND THE IMPLICATIONS OF CONSOLIDATED SANDINISTA POWER.

THE MAGNITUDE OF WORLDWIDE TERRORISM AND, IN OUR HEMISPHERE, THE ILLEGAL TRADE IN DRUGS POSE SERIOUS CHALLENGES. WHILE OUR SECURITY ASSISTANCE PROGRAMS HAVE NOT TRADITIONALLY DEALT WITH THESE PROBLEMS, WE HAVE BEGUN TO STRUCTURE AN EFFECTIVE RESPONSE TO THIS SCOURGE.

CHART 3: SOVIET MILITARY/ECONOMIC ASSISTANCE

A GLANCE AT THIS CHART IS ENOUGH TO REVEAL THE STRIKING CORRELATION BETWEEN THE PROBLEM NATIONS WE HAVP JUST DISCUSSED AND THE NATIONS RECEIVING SOVIET MILITARY SALES AND ASSISTANCE. THIS

CHART SHOWS, IN RED, SOVIET MILITARY SALES, WHICH ARE OFTEN ON QUITE FAVORABLE TERMS, AND IN GREEN, SOVIET ECONOMIC AID. YOU WILL NOTE THE PREPONDERANCE OF RED. THEIR PROVISION OF MILITARY ASSISTANCE AND ADVICE TO NORTH KOREA, VIETNAM, SOUTH YEMEN, ETHIOPIA, ANGOLA, SYRIA, LIBYA, NICARAGUA AND CUBA SUPPORTS A POLICY OF FUELING THE FIRES OF MARXIST IDEOLOGY AND AGGRESSION. THERE ARE MORE SOVIET SECURITY ASSISTANCE ADVISORS IN LATIN AMERICA THAN WE HAVE IN THE ENTIRE WORLD AND ABOUT TWICE AS MANY IN SUB-SAHARAN AFRICA AS OUR WORLDWIDE TOTAL.

THE SOVIETS HAVE NO LAW BUT THEIR OWN WILL FOR POWER GOVERNING THEIR MILITARY ASSISTANCE; NO LEGISLATIVE REVIEW PROCESS SETTING THE CONSTRAINTS OF THEIR OVERSEAS ACTIVITY; AND THE SOVIET POPULACE DOES NOT VALIDATE THE CHOICES OF THEIR LEADERS.

OUR SECURITY ASSISTANCE PROGRAM IS SUBJECT TO CONGRESSIONAL AND OPEN PUBLIC REVIEW. IT IS ULTIMATELY VALIDATED, AS IT SHOULD BE, THROUGH OUR DEMOCRATIC PROCESS.

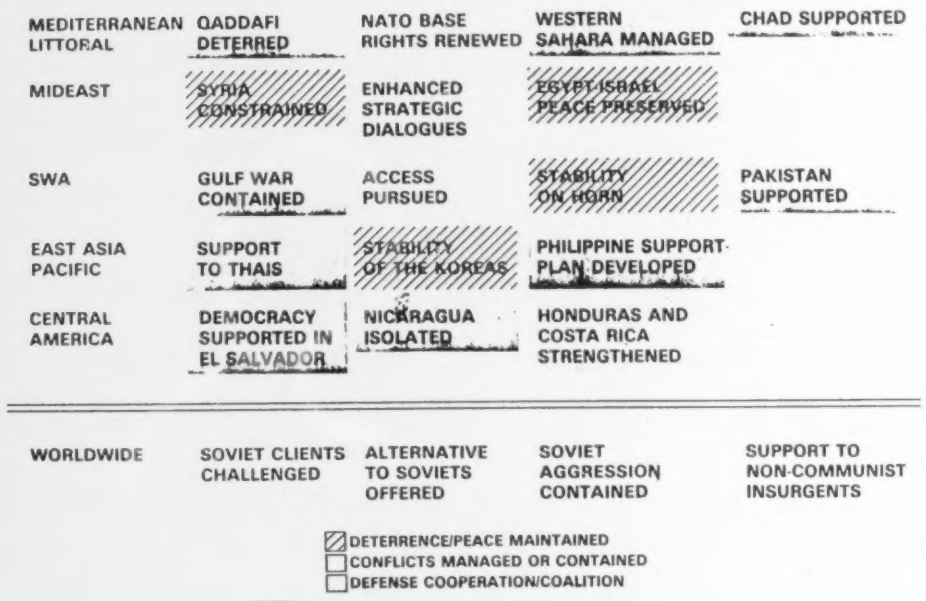
CHART 4: U.S. ECONOMIC AND MILITARY PROGRAMS

THIS CHART SHOWS THE BALANCE BETWEEN OUR ECONOMIC AND MILITARY

ASSISTANCE. AS IN THE SOVIET CHART, RED REPRESENTS MILITARY AID WHILE GREEN STANDS FOR ECONOMIC ASSISTANCE. UNITED STATES FOREIGN ASSISTANCE PROGRAMS HAVE A VERY DIFFERENT CHARACTER FROM THOSE OF THE SOVIET UNION: WE PROVIDE MILITARY ASSISTANCE FOR DEFENSE ONLY. WE FAVOR ECONOMIC OVER MILITARY ASSISTANCE BY A 60 TO 40 RATIO OVERALL AND A RATIO MUCH HIGHER THAN THAT IN MOST OF THE THIRD WORLD. THIS LAST POINT IS SOMETHING THAT IS OFTEN MIS-UNDERSTOOD; PLEASE RECALL THAT ESF, THOUGH PART OF THE SECURITY ASSISTANCE BUDGET IS PURELY ECONOMIC AID.

WE TARGET THE NEEDS OF OUR RECIPIENTS. AS THIS CHART ILLUSTRATES, WE ARE SENSITIVE TO THE ECONOMIC ROOTS OF MANY PROBLEMS OF CENTRAL AMERICA, SOUTH AMERICA AND SOUTHERN AFRICA. GENERALLY, WE ATTEMPT TO ACHIEVE A BALANCE IN EACH COUNTRY THAT IS APPROPRIATE TO ITS SITUATION. IN KOREA, FOR EXAMPLE, A SIZABLE MILITARY INPUT OF CREDIT ASSISTANCE IS NEEDED BECAUSE OF OUR MUTUAL NEED TO MAINTAIN A DETERRENT AGAINST THE NORTH. KOREA'S GROWING PROSPERITY MAKES ECONOMIC AID UNNECESSARY, AND OUR MILITARY ASSISTANCE IS IN THE FORM OF NEAR-MARKET INTEREST RATES. IN EGYPT, ISRAEL, PAKISTAN AND THE PHILIPPINES, ON THE OTHER HAND, WE NEED A BALANCED MIX OF BOTH ECONOMIC AND MILITARY ASSISTANCE BECAUSE OF THE NATURE OF THE THREAT FACING THOSE COUNTRIES AND THE NEED TO ADDRESS THE SERIOUS PROBLEMS OF THEIR ECONOMIES. FOR OUR SOUTHERN EUROPEAN ALLIES, OUR MILITARY ASSISTANCE HELPS THEM PURSUE NATO-RELATED FORCE GOALS, AS WELL AS SECURING BASE RIGHTS FOR U.S. FORCES. IN GREECE AND TURKEY, WE AUGMENT THIS WITH ECONOMIC ASSISTANCE.

CHART 5: PURSUIT OF OBJECTIVES



THIS CHART SHOWS SOME OF THE ACHIEVEMENTS OF OUR SECURITY ASSISTANCE PROGRAM. THE RECORD SHOWS THAT SECURITY ASSISTANCE PROGRAMS IN CONCERT WITH OTHER FOREIGN POLICY TOOLS HAVE HELPED ACHIEVE SOME REMARKABLE RESULTS, MOST NOTABLY IN THE GENERAL AREAS OF DETERRENCE AND CONFLICT MANAGEMENT, AS WELL AS IN PROMOTING COLLECTIVE SECURITY.

WE HAVE PRESERVED DETERRENCE IN AREAS OF POTENTIAL MAJOR CONFLICTS, SUCH AS THE MIDDLE EAST, SOUTHWEST ASIA, KOREA, AND THE NATO AREA.

CONFLICTS HAVE BEEN MITIGATED OR CONTAINED IN CENTRAL AMERICA, THE WESTERN SAHARA, CHAD, THE OGADEN REGION BETWEEN ETHIOPIA AND SOMALIA, YEMEN, THE PERSIAN GULF, AND THAILAND. FOR EXAMPLE, BY IMPROVING REGIONAL STATES' AIR DEFENSE AND NAVAL PATROLS IN THE GULF, OUR SECURITY ASSISTANCE HAS CONTRIBUTED TO CONTAINMENT OF THE IRAN-IRAQ WAR. THE RECENT LIBYA-SUPPORTED FLARE-UP IN CHAD,

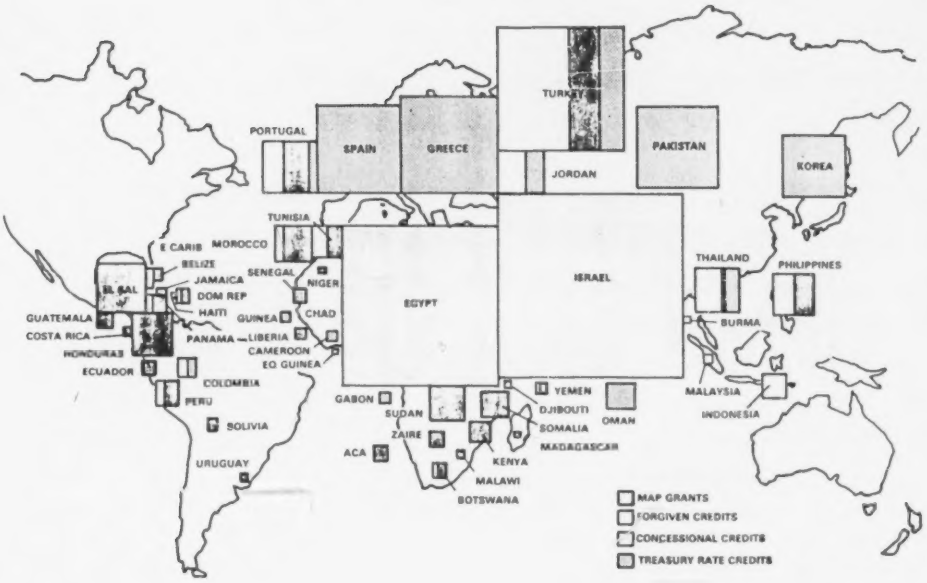
THE INTENSIFICATION OF THE IRAN-IRAQ WAR, THE DANGER SIGNS IN YEMEN AND THE PHILIPPINES, DRIVE HOME THE LESSON THAT THE UNEXPECTED CONTINUES TO OCCUR. WE MUST NEVER FORGET THAT NONE OF OUR ACHIEVEMENTS ARE FINAL -- ALL REQUIRE CONTINUED VIGILANCE.

OUR ASSISTANCE HAS ALSO SIGNALED TROUBLEMAKERS IN THE WORLD THAT THREATS TO THEIR NEIGHBORS WILL BE MET WITH APPROPRIATE RESPONSES. OUR ASSISTANCE TO PAKISTAN IS A STRONG SIGNAL TO THE SOVIET UNION THAT ITS AGGRESSION IN AFGHANISTAN CANNOT GO FURTHER. OUR ASSISTANCE TO THAILAND SIGNALS OUR FIRM COMMITMENT TO THAT COUNTRY FACING THE THREAT FROM VIETNAMESE FORCES IN CAMBODIA.

WITH THE COOPERATION OF HOST NATIONS, WE HAVE IMPROVED THE POSTURE AND DEPLOYMENT OF U.S. FORCES. IN THE PAST FIVE YEARS, WE HAVE RENEGOTIATED BASE RIGHTS AGREEMENTS WITH ALL FIVE COUNTRIES WHERE A FORMAL RELATION BETWEEN SECURITY ASSISTANCE AND STRATEGIC COOPERATION EXISTS, I.E., PORTUGAL, SPAIN, GREECE, TURKEY, AND THE PHILIPPINES. WE HAVE MAINTAINED ACCESS TO FACILITIES IN OMAN, SOMALIA, KENYA, MOROCCO, AND EGYPT, AND HAVE BEGUN SIMILAR ARRANGEMENTS WITH DJIBOUTI. ONE RESULT IS THAT U.S. FORCES HAVE INCREASED THEIR COOPERATIVE EXERCISES WITH LOCAL FORCES, ESPECIALLY IN CENTRAL AMERICA, THE MIDDLE EAST, AND THAILAND.

IN LARGE MEASURE, OUR PROGRAMS HAVE BEEN DESIGNED TO RESPOND TO SOVIET-SUPPORTED CHALLENGES AROUND THE WORLD. IN PRACTICAL TERMS, THIS MEANS THAT, WHEREVER THEY HAVE AGGRESSIVE CLIENTS OR ARE EXPLOITING LOCAL INSTABILITIES, WE TRY TO ASSIST THE NEIGHBORING STATES.

CHART 6: FY87 FMS/MAP FINANCING



THIS CHART REPRESENTS THE PROPOSAL FOR MILITARY ASSISTANCE THIS YEAR. AS YOU CAN SEE, ITS COMPONENTS ARE COLOR-CODED TO COVER THE SEVERAL FORMS OF FINANCING. THE BLOCKS ARE SCALED TO THE SIZE OF THE COUNTRY PROGRAM. IT DOES NOT DIFFER MUCH FROM OUR PROPOSAL OF LAST YEAR. THE TOP SEVEN COUNTRIES STILL RECEIVE ABOUT 80 PERCENT OF WHAT WE PROPOSE. WE ARE CONTINUING TO SHIFT TO MORE CONCESSIONAL TERMS; YOU WILL NOTE THAT MOST OF OUR FUNDS FOR AFRICA AND LATIN AMERICA ARE GRANTS. THE TOTAL FUNDING REQUEST IS APPROXIMATELY AT THE LEVEL OF OUR FY86 REQUEST AND IS FULLY COMPLIANT WITH THE GRAMM-RUDMAN-HOLLINGS CONSTRAINTS. THE FEW INCREASED ITEMS IN THE PROGRAM ARE TO MEET OUR COMMITMENTS TO BASE RIGHTS COUNTRIES, OR TO COPE WITH SPECIFIC AND URGENT PROBLEMS THAT HAVE ARISEN LATELY, AS IN SOUTH AMERICA, OR TO AVOID CUTTING IMPORTANT COUNTRY PROGRAMS BELOW FY85 LEVELS.

IN ADDITION TO SECURITY ASSISTANCE FUNDING IN THE BUDGET, WE ARE REQUESTING $350 MILLION IN OBLIGATION AUTHORITY TO USE THE FUNDS

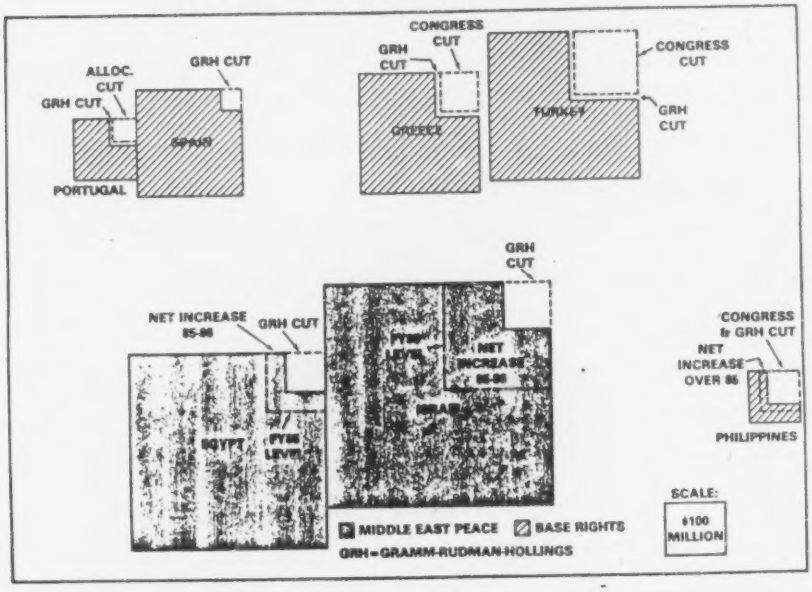
IN THE SPECIAL DEFENSE ACQUISITION FUND (SDAF). WE HAD $325 MILLION LAST YEAR. WE ARE ALSO ASKING ONCE AGAIN FOR AN EXTENSION OF THE PERIOD IN WHICH WE CAN EXERCISE THIS OBLIGATION AUTHORITY - TO TWO YEARS, IN ORDER TO CONDUCT MORE DELIBERATE CONTRACTING AND STAY CLOSER TO DOD PROCUREMENT PRACTICES. WE ARE ALSO ASKING THE ARMED SERVICES COMMITTEES FOR AN INCREASE OF $100 MILLION IN CAPITALIZATION SO THAT WE CAN CONTINUE SPENDING AT THE $300-350 MILLION LEVEL.

THE ONLY OTHER LEGISLATIVE INITIATIVE WE HAVE SUBMITTED TO YOU IS TO RAISE THE THRESHOLD FOR IMET REPROGRAMMING NOTIFICATIONS TO $25 THOUSAND. WE PROPOSED THIS LAST YEAR, AND IT WAS SUPPORTED IN THE AUTHORIZATION BILL.

CHART 7: REDUCTIONS IN FY86 FROM FY86 REQUEST

FMSCR/MAP: CUTS FROM FY 86 REQUEST: ISRAEL, EGYPT, BASE RIGHTS COUNTRIES

• INCLUDES GRAMM-RUDMAN CUTS



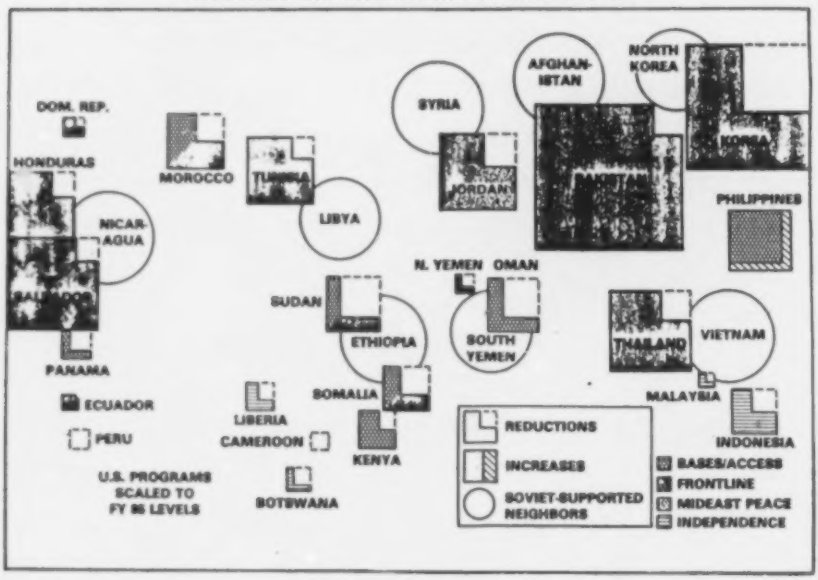
LET ME RECAP WHAT HAPPENED TO LAST YEAR'S FY86 BUDGET. FOR FISCAL YEAR 1986, WE HAD TO MAKE A NUMBER OF SEVERE CUTS IN CRITICAL AREAS AS A RESULT OF A REDUCED APPROPRIATION FOLLOWED BY GRAMM-RUDMAN-HOLLINGS CUTS OF 4.3 PERCENT. THIS MAP SHOWS WHERE CONGRESS OR GRAMM-RUDMAN-HOLLINGS REQUIREMENTS, HAVE CUT PROGRAMS BELOW THE

FY86 REQUEST IN OUR ALLOCATION FOR FY86. THE SCALE IS RELATIVE TO FINANCING, AND WE HAVE INCLUDED ISRAEL, EGYPT, AND BASE RIGHTS PROGRAMS. THE FULL BOX REPRESENTS FY85 LEVELS, AND THE NOTCH ON THE BOX IS THE REDUCTION FROM THE FY86 REQUEST. NOTE THAT WHILE ISRAEL AND EGYPT RECEIVED THE GRAMM-RUDMAN-HOLLINGS CUT, THEY STILL WERE INCREASED OVER FY85 LEVELS.

CHART 8: REDUCTIONS IN FY86 FROM FY85 LEVELS

FMSCR/MAP: REDUCTIONS IN KEY PROGRAMS IN FY 86 FROM FY 85 LEVELS

* INCLUDES GRAMM-RUDMAN REDUCTIONS



ON THIS CHART WE SHOW THE CUTS TO THE REST OF THE WORLD. NOTE THAT THE SCALE ON THIS CHART IS CHANGED TO ACCOMMODATE THE SMALLER PROGRAMS. MANY PROGRAMS WERE CUT BELOW FY85 LEVELS IN OUR ALLOCATION FOR FY86. MANY OF THE MAJOR CUTS WERE FOR COUNTRIES WHICH ARE NEIGHBORS OF COUNTRIES RECEIVING MAJOR SOVIET SUPPORT REPRESENTED ON THIS CHART BY THE CIRCLES.

BECAUSE ISRAEL AND EGYPT, AS WE SHOWED ON OUR PREVIOUS CHART, INCREASED SO MUCH WITHIN A SHRINKING TOTAL, OTHER CUTS WERE FAR MORE SEVERE. OBVIOUSLY, THERE IS THE POTENTIAL FOR REAL DAMAGE TO

KEY COUNTRY DEFENSES, TO OUR RELATIONS WITH OUR CLOSEST SECURITY PARTNERS, AND TO OUR OWN STRATEGIC INTERESTS.

WE WORRY THAT THESE DISPROPORTIONATE CUTS, FORCED BY EARMARKED INCREASES FOR ISRAEL AND EGYPT, MAY ACTUALLY ENDANGER DETERRENCE, ESPECIALLY IN SOUTH KOREA, THAILAND, PAKISTAN, SOMALIA, AND TUNISIA. FUNDS TO SOUTH KOREA AND SOMALIA HAD TO BE CUT BY 30 AND 42 PERCENT RESPECTIVELY. AT A TIME OF TURMOIL IN SOUTH YEMEN AND THE POSSIBILITY OF ITS RETURN TO A MORE AGGRESSIVE POSTURE, NORTH YEMEN AND OMAN NEED OUR SUPPORT. OMAN'S PROGRAM HAD TO BE REDUCED BY 53 PERCENT, AND NORTH YEMEN'S BY ALMOST 62 PERCENT. MOROCCO CONTINUES TO BE PLAGUED BY ECONOMIC PROBLEMS, INCLUDING THE DRAIN OF THE WAR IN THE WESTERN SAHARA, IN WHICH IT HAS BEEN OTHERWISE SUCCESSFUL. BUT WE WERE FORCED TO CUT FUNDS TO MOROCCO BY 26 PERCENT. IN CENTRAL AMERICA WE HAVE MADE A GREAT DEAL OF PROGRESS BUT THE INSURGENCIES THERE STILL EXIST AND THE SITUATION REMAINS FRAGILE.

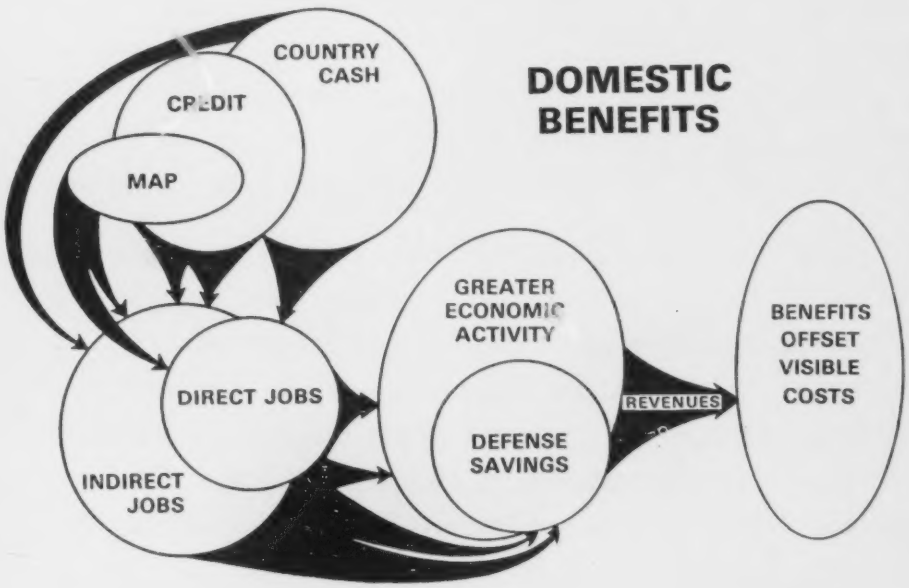
CHART 9: TURKEY AT STRATEGIC CROSSROADS

WE ARE VERY CONCERNED ABOUT THE CUT WHICH WAS IMPOSED ON

THE PROGRAM FOR TURKEY, ONE OF OUR MOST IMPORTANT NATO ALLIES POSITIONED AT THE NEXUS OF SEVERAL OF OUR REGIONAL STRATEGIES. THE TURKISH PROGRAM IS ONE OF THE MOST CAREFULLY STRUCTURED AND IS FRAMED TO MEET NATO REQUIREMENTS IN THE CONTEXT OF GROWING OBSOLESCENCE IN THE TURKISH INVENTORY. CUTTING TURKEY WELL BELOW THE FY85 LEVEL, JUST TO OBTAIN A 7:10 RATIO WITH GREECE, MAKES NO PROGRAMMATIC SENSE, ALLOWS FOR NO NEW PROGRAMS AND SENDS THE WRONG SIGNAL TO OUR ALLIES AND ADVERSARIES.

CONGRESS REDUCED TURKEY BY ABOUT $170 MILLION BELOW THE FY86 REQUEST, OR ABOUT $57 MILLION BELOW THE FY85 LEVELS, EVEN BEFORE APPLICATION OF GRAMM-RUDMAN-HOLLINGS. AN ADDITIONAL CUT OF APPROXIMATELY $28 MILLION RESULTED FROM SEQUESTRATION. THE FINAL RESULT OF FY86 ACTIONS WAS A PROGRAM OF ABOUT $615 MILLION WHICH SIMPLY IS INSUFFICIENT TO MEET TURKEY'S MODERNIZATION NEEDS.

CHART 10: DOMESTIC BENEFITS



OF COURSE, I AM SENSITIVE TO THE NEED FOR BUDGETARY PRUDENCE AND I REALIZE THAT MANY OF THE CUTS WE HAVE JUST NOTED WERE CAUSED BY CONGRESS'S DESIRE TO REDUCE THE DEFICIT. BUT THERE IS ANOTHER

SIDE TO SECURITY ASSISTANCE, BENEFITS TO OUR OWN ECONOMY, WHICH ARE TOO OFTEN OVERLOOKED. THIS CHART ATTEMPTS TO SHOW THE DYNAMICS OF THE ECONOMIC BENEFITS OF THIS PROGRAM. WHETHER OR NOT THE U.S. HAS A SECURITY ASSISTANCE RELATIONSHIP WITH A PARTICULAR COUNTRY IS A MATTER OF FOREIGN POLICY OBJECTIVES AND NATIONAL SECURITY GOALS. IT IS, HOWEVER, EQUALLY IMPORTANT FOR BOTH CRITICS AND SUPPORTERS OF THE PROGRAM TO UNDERSTAND THAT THERE ARE REAL ECONOMIC BENEFITS THAT ACCRUE TO US AS A NATION AS A RESULT OF OUR SECURITY ASSISTANCE PROGRAMS.

APPROXIMATELY 70 TO 75 PERCENT OF FMS PURCHASES ARE MADE WITH FOREIGN NATIONAL FUNDS. THIS INFLOW OF CASH TENDS TO OFFSET, TO A CERTAIN EXTENT, THE FUNDS APPROPRIATED FOR FINANCING. WHEN OFFSETTING REVENUES (SUCH AS TAXES, INTEREST PAYMENTS, ETC.) ARE FACTORED IN, WE ESTIMATE THAT THE FY87 REQUEST FOR SECURITY ASSISTANCE APPROPRIATION, POTENTIALLY ADDS TO THE DEFICIT BY ABOUT $1.5 BILLION TO $2.5 BILLION. ON THE OTHER HAND, OVER THE LAST THREE YEARS, THE AVERAGE TRUST FUND BALANCE FOR FOREIGN NATIONAL FUNDS HAS BEEN AT LEAST $4 BILLION. THIS $4 BILLION COUNTS POSITIVELY AGAINST THE DEFICIT. THUS, IN THE FINAL ANALYSIS, OUR TOTAL FMS PROGRAM POTENTIALLY REDUCES THE DEFICIT IN A RANGE OF $1.5 BILLION TO $2.5 BILLION PER YEAR AT RECENT LEVELS OF ACTIVITY.

TAKEN AS A WHOLE, THE FOREIGN MILITARY SALES PROGRAM (WHETHER THE SALE IS FINANCED BY THE U.S. GOVERNMENT OR NOT) DIRECTLY SUSTAINS OR CREATES AN ESTIMATED 265,000 - 371,000 MAN-YEARS OF JOBS ANNUALLY. THE PROGRAM IS NOT A DRAIN ON THE ECONOMY. IT IS THE VISIBLE EXPENSE OF SECURITY ASSISTANCE FINANCING IN THE FEDERAL BUDGET WHICH OBSCURES THE FACT THAT THE U.S. CLEARLY RECEIVES SUBSTANTIAL ECONOMIC BENEFITS FROM THE OVERALL PROGRAM.

CHART 11: MAJOR CHALLENGES AHEAD

THE MEASURE OF STABILITY AND DETERRENCE WE HAVE ACHIEVED IS PRECARIOUS, SINCE THE SOURCES OF CONFLICTS AND THREATS STILL REMAIN AND WE ARE OPERATING ON MINIMAL RESOURCE LEVELS. THE MAJOR CHALLENGES ARE SHOWN ON THIS CHART. IN GENERAL, THE CONSOLIDATION OF THE POLICY ACHIEVEMENTS OF THE LAST FIVE YEARS, THE EXTENSION OF THESE SUCCESSES INTO THE FUTURE, AND REINVIGORATED CONTAINMENT OF SOVIET AND RADICAL AMBITIONS ARE NEAR-TERM CHALLENGES FOR SECURITY ASSISTANCE.

THE ADMINISTRATION AND CONGRESS HAVE WORKED CLOSELY OVER THE LAST FIVE YEARS TO FUND THE CRITICALLY IMPORTANT SECURITY ASSISTANCE PROGRAM. WE HAVE TRIED TO ASSIST COUNTRIES IN COPING WITH BOTH THEIR DEFENSE NEEDS AND ECONOMIC PROBLEMS IN A BALANCED MANNER. TODAY, THE BALANCE OF OUR PROGRAM AMONG STRATEGICALLY VITAL PARTNERS IS THREATENED BY THE EARMARKING OF LARGE FUNDING INCREASES FOR JUST TWO RECIPIENTS IN THE FACE OF SIZABLE CUTS IN THE PROGRAM TOTAL. DISASTROUS CONSEQUENCES FROM GRAMM-RUDMAN-HOLLINGS CONSTRAINTS CAN BE AVOIDED ONLY IF CONGRESS ALLOWS US

(A) TO SHARE THE CUTS MORE EQUITABLY AMONG NATIONS; AND (B) TO HAVE ENHANCED REPROGRAMMING FLEXIBILITY TO OFFSET THE RIGIDITY OF GRAMM-RUDMAN-HOLLINGS.

POTENTIAL AND ACTUAL CONFLICTS AND THEIR ROOT CAUSES PERSIST. THEY POSE THREATS TO STRATEGIC STABILITY AND TO THE PROMOTION OF DEMOCRATIC PRINCIPLES THROUGHOUT THE WORLD. THE CHALLENGES -- TO PRESERVE STABILITY AND THE RELIABILITY OF THE U.S. AS A DEFENSE PARTNER; TO ENSURE CONTINUED IMPROVEMENTS IN THE FORCE STRUCTURE OF OUR ALLIES AND ACCESS FOR U.S. FORCES OVERSEAS; AND TO COPE WITH CONFLICTS, INCLUDING TERROR AND RADICAL AGGRESSION -- WILL HAVE TO BE CONFRONTED WITH NEW FLEXIBILITY TO OFFSET SEVERE U.S. BUDGET RESTRAINTS.

OPENING STATEMENT OF SENATOR D'AMATO

Senator KASTEN. General, thank you.

I am pleased that we are joined by a number of our colleagues. I made a brief opening statement, is there anyone who would wish to make an opening statement, otherwise I will go forward with a couple of questions.

Senator D'AMATO. Mr. Chairman, in the interest of time, I would like to submit my opening statement for the record in its entirety, and simply just welcome Secretary Schneider.

Senator KASTEN. Without objection, so ordered.

[The opening statement of Senator D'Amato follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Mr. Chairman, I welcome Under Secretary William Schneider to this committee to discuss the administration's fiscal year 1987 budget request for international security assistance.

I believe our International Security Assistance Program, which includes the Economic Support Fund, the Military Assistance Program, Foreign Military Credit Sales, the Peacekeeping Operations, the International Military Education and Training Program, and the Special Defense Acquisition Fund, plays an integral part in our foreign policy. The administration's foreign aid budget request is one of the few areas which received a healthy increase. Although I support the goals of our foreign aid program, the realities of budget constraints will mean reductions in this request.

The Economic Support Fund greatly assists nations with serious balance-of-payment problems. Nearly half of the proposed $4 billion of ESF will be used to foster stability in the Middle East. I commend the administration's continued support of aid levels to Israel. This nation has worked hard to solve its economic problems and, with U.S. assistance, it has been successful to date. Our investment with Israel, a true ally, is nominal when compared to the hundreds of billions of dollars we spend to defend Western Europe.

The Military Assistance Program aids our Nation's allies by financing the procurement of defense goods. These nations usually have serious defense needs, but few

resources to expend for defense. MAP greatly enhances our foreign policy goals by aiding allies who are combating aggression, such as El Salvador, promoting regional stability, such as in Zaire, and providing cooperative security, such as in Portugal. The administration has requested close to $1 billion for the Military Assistance Program, an increase from $748 million allowed for this fiscal year.

Another key foreign policy tool is the Foreign Military Sales Financing Program. This program allows friendly nations with fiscal difficulties to purchase U.S. defense goods using U.S. loans. The FMS program enables these nations to share the burden of U.S. security. The administration has requested $5.6 billion for this program, nearly $700 million over this year's level.

In addition to these programs, the Peacekeeping Operations, the International Military Education and Training Program, and the Special Defense Acquisition Fund also assist our allies in meeting specific defense needs.

I do, however, have serious problems with specific areas of the international security assistance program, especially proposed ESF levels for Cyprus and the significant increase in economic and military aid proposed for Turkey. Each year, the administration requests aid levels to Cyprus at $3 million, and each year we in Congress are forced to restore the level to $15 million. For fiscal year 1986, Turkey will receive approximately $764 million in economic and military aid. The fiscal year 1987 request is for over $1 billion, a 33-percent increase. By the virtue of our aid program, the United States can be a significant factor in resolving the Cyprus dispute. The budget request, however, seems only to demonstrate that the United States is willing to accept the status quo on Cyprus. This is precisely the wrong message to send.

The international security assistance programs have proven that they can be effective. While providing recipient nations with much needed assistance, they bolster U.S. interests and foreign policy objectives. The administration and the State Department for the most part have done a good job of using these programs wisely. I look forward to working with you, Mr. Schneider, on funding levels for these important programs as the budget process moves forward.

Thank you, Mr. Chairman.

SECURITY ASSISTANCE PROGRAM IN PAKISTAN

Senator SPECTER. Mr. Chairman, I would just like to submit some questions for the record. I cannot stay very long because of other commitments, but I would like to submit some questions.

Senator KASTEN. Without objection, the questions will be submitted.

Recent press reports, Secretary Schneider, have indicated that the Government of Pakistan is seeking to double their current $3.2 billion security assistance for the 6-year period which would begin in 1988.

Granted our relationship with Pakistan is very important to U.S. security, no question about that, and I think all of the subcommittee would agree. But you know as well as I do that that kind of an increase is unrealistic. We are looking at these maps, and the General was pointing to the little corners cut out of a large number of them. To think of doubling the current $3.2 billion, already Pakistan is a big mark, what are you going to do to dissuade them? I don't want this to affect our relationship, but that simply isn't realistic. If we were to imply that somehow we could, through smoke and mirrors, paperclips, or whatever, end up with those kinds of amounts, that could be harmful because that is just not going to happen.

Are you going to be able to dissuade the Pakistani Government of this unrealistic notion?

Dr. SCHNEIDER. I think that it is a very astute question, Mr. Chairman, and I would like to comment on a couple of dimensions of it.

We have, in general, tried to acquaint nations with whom we have foreign assistance relationships with the character of the budgetary problems we have so as to avoid the problem of exaggerated expectations about what largess may be received from the United States.

In the case of Pakistan, they have recently gone to a democratic regime from the martial law regime they recently had, and there are a number of new officials in the government that have just started to become acquainted with the details of our program, and matters related to the U.S. budget situation.

Secretary Shultz, myself, General Gast, and others, have had meetings with senior officials from the Pakistan Government where we have briefed them on the character of the budget problem, including the problem associated with large multiyear commitments.

I am persuaded that the officials now are understanding of the character of our budget problem, and such expectations that might have been harbored by some officials are unlikely to be harbored by them simply because of the higher understanding they have of our budget situation.

I would say that we regard Pakistan as an extremely important country to our interests. It is a frontline state, directly facing the might of the Soviet army on its borders. It is extremely important to us that we provide Pakistan with every bit of materiel support that we can practically do under the situation that we face.

I think what we will do so, and we will negotiate a new assistance program that will both meet their needs and be within our budget capabilities.

Senator KASTEN. Mr. Secretary, let me just say that the committee understands and agrees that Pakistan is important. I think that it may be because of that importance that we don't want to mislead them. We don't want to be in the process of setting up unrealistic expectations, particularly of this magnitude. We look forward to working with you to support them in all reasonable ways, and we are, I am sure, going to be doing that.

I think that it is because they have been a friend that it is important to emphasize the fact that we are unlikely to be able to double these numbers that we are talking about.

EMERGENCY ECONOMIC SUPPLEMENTAL FOR ISRAEL

Let me switch to Israel. It is my understanding that we have not yet made any disbursement in the current fiscal year from the 1985 emergency economic supplemental for Israel. It was my hope, and frankly the hope of a number of members of the subcommittee, that we, in fact, would be able to begin these disbursements from the 1985 emergency supplemental.

Why have we not made these disbursements, and are we going to begin making these disbursements relatively quickly?

Dr. SCHNEIDER. Mr. Chairman, the Secretary has indicated that the philosophy of disbursements, in his view, should relate to helping to support the economic reform program that has been underway in Israel.

It is his intention to recommend disbursements that are timely with respect to that process.

In the Appropriation Act for the fiscal year 1985 supplemental, the money was available for obligation and disbursement for a period of several years rather than the usual 1-year appropriation. We will disburse these funds as soon as the matter is timely with respect to the reform program. My expectation is that disbursement will be relatively soon.

DISBURSEMENT OF ISRAELI SUPPLEMENTAL FUNDS

Senator KASTEN. My understanding of the legislation, when we passed it, wasn't that this was supposed to be a reward for economic reforms that are taking place. It was supposed to be as an adjunct to help them at every step of those reforms.

We have agreed on a plan, basically, and we go step by step by step across the way, but we don't have to complete the entire plan in order to start having these dollars being made available. The congressional intent was that step by step by step there would be disbursements as we moved through these difficult reforms together.

I think, in fact, if we delay making the disbursements, it could have a negative effect because the plan that we have agreed to, and which Israel is going forward on, could be in jeopardy if we don't start to work along with them as a partner.

Dr. SCHNEIDER. I agree with you completely, Mr. Chairman. We are not seeking to act as an IMF, or any other kind of disciplinary institution in this regard. The philosophy relates literally to, as you suggest, providing the resources when it was timely with respect to the government's reform program in Israel.

As the program is implemented, we will provide the disbursements as the Congress has recommended.

CUT IN ESF FUNDING

Senator KASTEN. I want to ask one final question in this round, and follow up on some questions that I started to develop in the hearing with the Secretary concerning the allocations of Economic Support Funds in fiscal year 1986. I am trying to still make some sense out of the policy behind some of the decisions which the administration has made, in terms of cutting ESF funding.

We cut money for two key friends. There are a number of friends on those charts, but two key countries. We cut money in Morocco, and we cut money in Kenya, while at the same time we are treating two other countries more favorably in terms of percentage reductions, Zimbabwe, or most particularly Mozambique, the latter two, as you well know, are not particularly in the Western camp.

FUNDING TO MOZAMBIQUE

As General Gast was talking about his new charts, I pulled two charts, and if we put these two maps like this into the light, and then try to find out which countries are turning up on both charts, Soviet military sales assistance, and then over here it is the fiscal year 1986 request for economic and military programs of our own. Right down there in that corner is Mozambique.

So here we are competing with the Soviets in terms of pouring money, military and economic assistance into Mozambique, and cutting money to Morocco, cutting money to Kenya, and to other countries. How do you explain this disparity, number one that we reduce our friends, such as Morocco and Kenya, but more importantly, here we are down there in that corner matching it up.

The money continues to come into Mozambique from the Soviets, and yet we continue to fund them.

Dr. SCHNEIDER. I think the Mozambique case is particularly controversial with this committee. The approach that has been taken is admittedly a risky one. One could have, for example, taken the model of Egypt, which is a country that had previously been a major Soviet assistance recipient. It severed its relationship with the Soviets, and then we turned on very substantial amounts of foreign assistance.

Mozambique represents another model. It is impossible to predict in advance whether the theory will be correct, but the concept has been that Mozambique's government has made some initiatives, some public, some private, that suggest its interest in separating itself from its Soviet sponsor.

Unless it had some basis for a belief that it would be able to effectively separate itself from the Soviet sponsor, and receive offsetting assistance from the Western countries, the process of that separation would be inhibited. So the President has recommended trying this concept of providing some assistance to Mozambique.

As I said, we can't predict in advance that it will work, but if it does work, it would have a substantial gain for the process of peace in southern Africa. If it doesn't work, the amount of assistance in itself is relatively small compared to the remainder of our program.

Senator KASTEN. I would still argue with you, if we had unlimited money. I would still argue with the answer that you just gave, but your answer may be sufficient if there was unlimited money. But, we had to fund Mozambique, and they received a reduction that was less than the percentage reduction of countries like Morocco and Kenya, and other countries where there is no question that they are supportive of the United States.

We could argue also about history, at what point the Egyptians started turning away from the Soviets, into more of a position of neutrality. That is a matter of degree, and a matter of judgment.

It is one thing to treat them equally, but the percentage reduction to our friends was greater than the percentage reduction to our enemies based on last year's redistribution of the scarce funds.

Senator DeConcini, do you have any questions?

Senator DECONCINI. Yes, I do, Mr. Chairman.

Mr. Secretary, I missed some of the briefing here, but I have had a chance to review it.

FISCAL YEAR 1987 BUDGET FOR FOREIGN PROGRAMS

Last year, in your testimony to this committee, you said that "foreign assistance is a prudent investment abroad." You then went on to state that there are limits to the amount of financial assistance which the United States can or should provide to our friends and allies.

This year, we must deal with the structural deficit in the Federal budget in order to maintain a healthy U.S. financial system, and continue noninflationary economic growth. That is the end of your statement.

The second statement, to me, is in direct contrast to this year's request. You seem to have abandoned any concerns for the balanced budget, and healthy U.S. financial system.

There are still a few things that are very hard for me to sell in Arizona, as popular as President Reagan is in my State. This is one of the fastest growing nondefense programs. This has increased 143 percent since 1981. My constituents in Arizona have a hard time swallowing this, and they get a little bit angry once they know it. Military assistance programs have gone up at an 886 pace since last year. Grant military assistance is up 33 percent, and military training is up 32 percent, while Public Law 480 is down by 14 percent.

This budget, we all agree, has to be prudent, lean, and cost effective. Where would you suggest that we find some reductions here, if indeed we are going to have a cost effective budget?

Senator KASTEN. Start with Mozambique.

Senator DECONCINI. Mozambique is a good place to start. I realize that you have a position to sell here, but I am not saying this to be cruel, I am saying that we are going to have to find some reductions here, and maybe you have some priorities, and they are listed someplace that I haven't seen.

MACROECONOMIC QUESTION

Dr. SCHNEIDER. First, Senator, a couple of comments with respect to the macroeconomic question.

The administration did submit a budget that met the Gramm-Rudman target deficit of $144 billion. I appreciate that the particular allocation that the administration recommended to do that is controversial, but the budget recommendation that the administration had put forward had foreign assistance funding in it that was consistent with meeting those targets. I think that it should be viewed in that light because the funding proposal for fiscal year 1987 that you have seen is about the same as the funding request for fiscal year 1986.

I appreciate that the Congress, in the Appropriation Act in 1986, did make substantial reductions.

The problem with the foreign assistance program is that it responds to phenomena, some of which are outside of our control. The fact that the Soviet Union is active in the Middle East, or in Southeast Asia, or wherever, forces us into a position where we have to act in the sense of moving resources to protect our interests.

MAP PROGRAM

With respect to a couple of specific points you mentioned, one of the largest growing elements of the foreign assistance program is the grant MAP program, which you referred to. When the administration came into office in 1981, the program was around $100 million, and it is now about $750 million. The reason that this has increased is that the recipient countries, in general, have had great difficulty in coping with the problem of debt. Giving the FMS loans has turned out to be a substantial burden, and the Congress has called our attention to it, as well as being something that the administration has recognized. So we have tried to substitute some grant funds for the credit funds to try to reduce the overall burden.

PUBLIC LAW 480 LEVELS

In the case of Public Law 480 decreasing, it is partly reflected in the fact that commodity prices have decreased. In terms of the amount of agricultural commodities that have been provided abroad, that has generally remained at a high level.

Senator DECONCINI. Has it gone up? Are you telling me that the real dollar value has gone up?

Dr. SCHNEIDER. The commodity levels have been increasing, but the dollar value of the commodities has not increased commensurately.

Senator DECONCINI. There is more food under Public Law 480?

Dr. SCHNEIDER. Yes; especially when you include the title II portion which deals with the humanitarian assistance.

Senator DECONCINI. Mr. Secretary, thank you.

FUNDING TO GUATEMALA

What troubles me here is that, and you are probably not the right person to talk to, although maybe you are. You are very convincing that our national security interests have to take precedence over education, child care programs, and health care for veterans.

Let me give you an example here, and correct me if I am mistaken. It is my understanding that President Cerezo of Guatemala has not requested the money that you put into this budget. Is that accurate?

Dr. SCHNEIDER. It is not strictly correct, Senator.

Senator DECONCINI. What is strictly correct?

Dr. SCHNEIDER. I would like to provide the details on it on a classified basis for you about some conversations that we have had with the Government of Guatemala.

Senator DECONCINI. Can you answer this in an open hearing? Has any official request been made by the Government of Guatemala?

Dr. SCHNEIDER. I would like to acquaint you with the conversations, and I think that it will be helpful to you.

ASSISTANCE TO LIBERIA

Senator DECONCINI. The other thing that concerns me is the Foreign Assistance Act, which prohibits the furnishing of assistance to any country 6 months in arrears on payments. Last year, sanctions were waived for Liberia. Currently, President Doe has jailed opposition leaders and suppressed freedoms of the press, yet we provide them with higher levels of assistance. How do you rationalize this? The Liberians called their recent election "Progress for Democracy." I think that this is stretching even the limits of hyperbole. In fact, we continue to grant money to somebody who certainly ought to be questionable, at best.

Dr. SCHNEIDER. I think the dilemma we face, and this was not so different from the recent problem in the Philippines where we have profound interest in the future of the country even though we have serious concerns about the trajectory of internal developments there. It is a delicate problem of balancing carrots and sticks, and using diplomatic mechanisms to try and encourage the country to take an appropriate path.

We think that the combination that we have available, we have resources available to provide some means of encouragement, better economic policy, and a more liberalized regime in terms of their politics, it will be the best way of trying to develop and sustain democratic institutions.

I would say that the experience in the Philippines was salutary in its effects.

Senator DECONCINI. Are you telling me that we are taking a gamble?

Dr. SCHNEIDER. Yes; as we did in the Philippines. We provided assistance to the Philippines during the period when we had grave concerns about the way the regime was going.

Senator DECONCINI. That gamble turned out in our favor.

Dr. SCHNEIDER. Yes.

Senator DECONCINI. You are gambling here that by continuous aid and assistance to Liberia that this gamble will turn out in our favor.

Dr. SCHNEIDER. Yes. If you are interested, I am sure we could provide you with some discussion of the diplomatic initiatives we have taken.

Senator DECONCINI. Mr. Chairman, I have a number of other questions, let me just ask one last one, and I will submit the balance.

FUNDING FOR CHILE

The administration is again requesting money for Chile for international military education and training assistance. Additionally, there are pending loans to Chile which will be officially signed by State Department officials in Costa Rica later this month, totaling, I believe, over $250 million. Of this, $130 million will go toward multisector credit programs which expand exports in agriculture and mining.

Given the recent imposition of another state of emergency by General Pinochet, the deplorable human rights situation down there, not to mention the competition in copper mining and its subsidized nature, when is the administration going to send a signal, more than just adopting the U.N. position recently on human rights? When are we going to finally say, enough is enough. It seems to me that we have gambled with Mr. Pinochet in Chile, and it hasn't worked out over the last several years. When does this finally become a bad investment for us, and haven't we reached that in Chile?

Dr. SCHNEIDER. I would argue, not. In the first case, with respect to Chile, we have had very little contact with institutions in Chile that could help improve the democratic situation, specifically with respect to the military.

It is admittedly a delicate situation to manage, but in our view, if we provide a small amount of military education funding, this may provide an opportunity for some of the officers so educated (*a*) to have a better appreciation of the humanitarian and democratic values that are propagated by the United States, and (*b*) it provides a point of contact that over time will be very useful.

I would like to cite as a footnote the circumstances in the Philippines where a long military education tradition we have had with the Philippines turned to be a decisive element in that drama because the Philippine military were perhaps the key institution in pushing that democratic movement.

Senator DECONCINI. Would you concur, then, in Argentina, when the Carter administration cut off all military assistance that this brought about an election down there?

Dr. SCHNEIDER. No; I don't think that was the principal thing. I think that the international hostilities that the regime had that was expressed by the——

Senator DECONCINI. What about the fact that in Guatemala we had no military assistance at all, and they finally turned to elections?

Dr. SCHNEIDER. In my view, the situation in Guatemala was important because it was the policy of the U.S. Government not to provide any assistance in the absence of taking a turn toward a democratic regime.

Senator DECONCINI. Why shouldn't we apply that to Chile, Mr. Secretary, that is my question?

Dr. SCHNEIDER. It is a reasonable question, Senator, but in the case of Chile, the military is a critical institution in that country. If you don't set up some basis for contact, so that we have a port of entry, so to speak, into the element of that society that could be instrumental in turning it back. The military, historically, in Chile have been a force for democracy. It has only been in the past decade or so that they have not been at all helpful.

I think that we need to reestablish some basis for communicating with that element of the society, to try and turn it in the democratic direction.

Senator DECONCINI. That is quite an answer. Thank you, it was very good.

Senator KASTEN. I am going to turn to Senator D'Amato. What I am going to do is run upstairs and vote, and then I will be right back down.

Senator D'AMATO. Thank you, Mr. Chairman.

NORTHERN IRELAND AID PACKAGE

Mr. Secretary, the Northern Ireland aid authorization package has passed in the House of Representatives, and it will most likely pass in the very near future in the U.S. Senate. The House Appropriations Committee is marking up a supplemental appropriations bill for fiscal year 1986, and it is rumored that they may earmark $50 million for this program out of existing ESF funding.

Where would you propose that these moneys come from? Where would you cut that $50 million?

Dr. SCHNEIDER. We don't think that that is the best way to provide assistance to Northern Ireland.

Senator D'AMATO. That is where it is going to come through.

Dr. SCHNEIDER. We will argue energetically in the Senate that an alternative approach should be taken.

Senator D'AMATO. Tell me about it.

Dr. SCHNEIDER. The motive we have is that the critical need in Northern Ireland is to start private initiatives, not to do more governmental activity. The character of the effort being proposed on the House side would simply strengthen the state sector and weaken the private sector.

We have to get the private sector going in Northern Ireland, and the recommendation the administration had made was a mixture of incentives for restarting private enterprise, and some immediate cash assistance, which we think is a better mix.

Senator D'AMATO. How much immediate cash assistance?

Dr. SCHNEIDER. We recommended $20 million in cash assistance, and $30 million in various sorts of incentives to get the private sector going. We think that is the high leverage element.

Senator D'AMATO. You say $30 million in other incentives. Are you talking about dollars that we are going to lay out?

HOUSING INVESTMENT GUARANTEES IN IRELAND

Dr. SCHNEIDER. For example, housing investment guarantees, this would stimulate the construction industry in Northern Ireland, start getting the place rebuilt and stimulate investment in the private sector.

If we go the route that will be taken on the House side, we would simply be putting out funds that would have no leverage in attracting private investment in Northern Ireland, it would simply perpetuate the economic problems in that troubled region.

Senator D'AMATO. Let me suggest, Mr. Secretary, that you not underestimate the depth of support that may be forthcoming for a very substantial aid package of $50 million both in the House and in the Senate.

Dr. SCHNEIDER. I would never underestimate support where Senator D'Amato is behind it. So we know that it will be very well supported. The President also supports it.

Senator D'AMATO. You know, my grandson's name is Gregory Daniel Murphy. [Laughter.]

Dr. SCHNEIDER. The President is extremely strong on this program as well.

Senator D'AMATO. I think there is another gentleman who had a little kiss-and-make-up session last evening, which was sort of timely. Do you know who I am referring to?

Dr. SCHNEIDER. I think that if we go through the package that we have proposed in the Senate——

Senator D'AMATO. Have you had any conference with the people in the House? Are we going to have a confrontation? Don't you think that it is about time, instead of everything being confrontational, to attempt to sit down and speak with them? Are we doing that yet?

Dr. SCHNEIDER. We have been trying to do so. We got interdicted midcourse when the Speaker believed that a simple cash payment should be made instead of the incentives part of it.

Senator D'AMATO. My question is, has anybody, like the Secretary of State, sat down with the Speaker, in closed session, to begin to put forth a very real program—as opposed to this $20 million there or $30 million here? Has anybody done that? Are there any real plans, any real alternatives that you have on a piece of paper?

Dr. SCHNEIDER. Yes, Senator, we have a very detailed program.

Senator D'AMATO. Are we just going to have a big political shoot-out?

Dr. SCHNEIDER. Our intention is to try and work a nonconfrontational resolution of this matter.

Senator D'AMATO. Will you submit that plan to this committee?

Dr. SCHNEIDER. I certainly will.

Senator D'AMATO. Would you let us know and advise the committee as to what efforts are being made in the House to meet with their leadership, advising them of the alternatives, so that it just doesn't come down as opposition, but that it is meaningful, and that it is not just platitudes about private sector initiatives?

Dr. SCHNEIDER. Yes; we have the real goods on this one, Senator, and we will provide you with the details.

Senator D'AMATO. That is different from the usual, you know what I am saying.

Dr. SCHNEIDER. Yes.

ECONOMIC SUPPORT FUNDS FOR CYPRUS

Senator D'AMATO. Let me just touch on one other matter, if I might, and then I will have to be saved by the bell, or you will be saved by the bell.

Once again, we have a proposed reduction in Economic Support Funds for Cyprus of $15 million, and that is not unusual, right?

Dr. SCHNEIDER. That is correct.

Senator D'AMATO. It is an annual event.

Dr. SCHNEIDER. It has become so.

Senator D'AMATO. It is one that I really begin to whistle at more and more. Here we are, attempting to bring about some kind of settlement or resolution to the problem of Cyprus. We are cutting the aid from $15 to $3 million, and yet, the administration has requested increasing the military assistance levels substantially for Turkey, notwithstanding what the general has indicated, showing an inadequate United States commitment to settling the problem of Cyprus by that kind of activity.

Don't you really think that we are sending the wrong signals? Don't you really think that we are saying to the Turks, you don't have to settle this, fellows, we are not really serious about it. You are an important part of our military, and we want to give you this, notwithstanding what you do in Cyprus, or what you failed to do.

Don't you see that as a reasonable concern that some of us might have? It may not be your policy, but can you see where some of us might think that you are giving that impression?

Dr. SCHNEIDER. Certainly, I can understand your point. The reason why we have proposed reducing the request from the previous year's congressional appropriation relates to the details of the program content. What the money has gone for has been housing programs and education in Cyprus. We have forward-funded the education program for years to come. It is simply a question of the objectives of the ESF program being effectively met at the $3 million level.

I appreciate the problems that are raised by the optics of the difference in funding levels.

Senator D'AMATO. Sometimes the appearances take on the aspects of reality. If we think that by doing this, saving some $12 million, you are not going to create for yourselves some very real problems with another applicant, Greece, I think that we are naive.

Dr. SCHNEIDER. I think that we have done an adequate job of describing the details of what has been achieved in the program to our friends in the Congress, and for that matter other countries in the region.

Senator D'AMATO. OK, I will accept that as more than I had hoped to get. But, I should not be surprised by the candor of the Secretary because, if anybody has ever been candid, you have always been candid with this committee. I am appreciative, I want you to know.

I have to suggest to you that by this kind of cutting, the cutting of $12 million, which pales in comparison to the increases to Turkey, you set up, potentially or not, the idea that we are handling this situation in a very unevenhanded manner, notwithstanding the program fulfillment that you talk about. I would suggest that you reconsider that because these perceptions are dangerous, and they are counterproductive to the best interests of the United States in that region.

They do not help with respect to our situation with Greece. If Greece is important, then I think we ought not to create an aura of antagonism that I think would flow from a perception of this kind of cut. It is not worth it, in plain simple language, and we should not be doing it.

I would hope that you would look at this again, and maybe advise us as to whether you are going to continue your course down this line.

Dr. SCHNEIDER. Thank you for your advice, Senator.

Senator D'AMATO. Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

Senator KASTEN. Thank you.

REDUCTIONS IN REQUESTED PROGRAMS

Mr. Secretary, I think it is clear from the discussion today, and the discussion that we had with the Secretary, that when Congress finishes action on the requests for the programs that we are talking about today, there are going to be some reductions in the resources available, and they could be quite substantial, I think.

Without trying to determine what that overall total might be, or what the final bottom line will be, I wonder if you could just speculate with me if there are other actions that we could take that you might suggest that we take, other than to try to provide you with the requested funding levels, which I will do, which would enable you to have a more successful program?

In other words, are there some legislative actions that we could take which would help you, General Gast, and others, to maximize the resources that clearly are going to be limited here?

Dr. SCHNEIDER. I would like to give a more considered answer to the record, but I can mention a few points that I think would be illustrative.

One of the dimensions of the problem that has made it particularly difficult to manage in the face of some significant reductions in aggregate spending, has been the practice of fairly substantial earmarking, and this is especially true in the ESF account, where the earmarking has become quite extensive.

I will note that you have worked to try to reduce the fraction of the program that is earmarked, but it does pose a very substantial problem.

A second has been the fact that concessional funds have been cut substantially from our requests. I would think that if this unwelcomed development of substantial cuts in the FMS program were to take place, I think that it would be useful for the committee to examine the possibility of giving us more flexibility to substitute concessional assistance, smaller amounts of concessional assistance for larger amounts of cost of money FMS credits, because of the fact that that provides a benefit to the recipient that we cannot otherwise provide through the regular FMS credit program.

I think there are some other suggestions that I could offer in more detail for the record, and I would do so, but I think those are illustrative.

Senator KASTEN. I think we are going to have some questions and problems with the overall funding levels no matter what we do. If there are particular legislative initiatives which you would recommend, or suggest, we would like to work with you. We will look forward to your more complete answer for the record.

COUNTERTERRORISM PROGRAM

Last summer, the President, in the wake of the assassination of the Marines in El Salvador, instructed the State Department to come up with a counterterrorism program in order to combat terrorism in the future. The State Department, after deliberating, as far as we can figure out, for more than a couple of months, came up with a program at the very end of the last fiscal year, which at that point was not acceptable to Congress.

Then the administration tried some reprogramming, which was technically deficient, or at least technically flawed, until the current continuing resolution was signed into law. Notwithstanding the importance that the President put on this program, and all of the pushing and shoving that took place around the counterterrorism program last year, now you are not asking for any funding in the counterterrorism program for fiscal year 1987.

How do you explain the fact that we went through all of this pushing and shoving last year, terrorism clearly is still a problem, and the President's personal concern, and there is no funding requested for any of these programs in fiscal year 1987? Is this coming in some other way, shape or form, or are we going to go through supplementals?

Why is that not included in the request for fiscal year 1987?

Dr. SCHNEIDER. Senator, we still have a fiscal year 1986 supplemental request here for the counterterrorism program. The problem is not getting an appropriation in 1986 creates a problem for 1987 because the 1987 program would be built on the 1986.

If we get a fiscal year 1986 appropriation, which we seek, then the matter for 1987 would be reviewed.

Senator KASTEN. I am not sure that this is going to work. We will just have to see what happens with the supplemental.

LIBYA

Let me switch to another country, Libya. On page 9 of your statement, you say, and I quote:

> The United States assistance plays a key role in sustaining the self-defense capabilities of Tunisia, a vote for moderation in the Arab world. This friendly country faces a continuing threat from the aggressive policies of its neighbor, Libya.

At a recent meeting of the Islamic Conference, two separate resolutions were passed proclaiming the members of that conference's solidarity with Libya, and condemning in very strong terms the United States.

Tunisia is a member of the Islamic Conference. Tunisia's vote for solidarity with Libya simply doesn't jibe with the so-called threat that you talk about in your prepared statement, saying that this country faces a continuing threat from the aggressive policies of its neighbor, Libya. Here they are expressing solidarity and condemnation of the United States. We have the vote of the Islamic Conference.

It doesn't make sense. You can't have it all ways. I should say the other way, that Tunisia can't have it all ways.

Dr. SCHNEIDER. I will not sit here and defend the vote of any of the participants in that sorry episode. I can only say, by way of mitigation, that there appears to be a certain herd instinct in the way these votes take place. I think the expression of disquiet from the Congress is particularly useful.

Senator KASTEN. Mr. Secretary, I just picked Tunisia because Tunisia was one of the countries that you referred to in terms of saying that they face a continuing threat from the aggressive policies of its neighbor, Libya, and then they hop in bed with Libya on these Islamic Conference resolutions.

We spent just under $5 billion in U.S. aid last year to member nations of the Islamic Conference, and that $5 billion did not include Food for Peace, Public Law 480. So if this is the way we are treated—I don't mean to single out Tunisia, but if this is the way that we are treated by our friends, we have to wonder.

Dr. SCHNEIDER. I share your astonishment.

Senator KASTEN. Mr. Secretary, there are a couple of other questions that we have that we would like to submit for the record. I thank you very much for your testimony.

General Gast, I particularly thank you for the way that you have graphically portrayed some of the assistance relationships there, and we look forward to working with you both.

SUBMITTED QUESTIONS

Members of the subcommittee will have questions to submit for the record. We would hope that you would get those answers back to us as quickly as possible.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

THE DISTRIBUTION OF FOREIGN ASSISTANCE FUNDING

Senator Kasten: Mr. Secretary, you may remember an article that Jeane Kirkpatrick wrote not too long ago which appeared in the Washington Post.

In this article, she basically argues that given the budgetary constraints, there are a number of foreign aid programs that the administration is requesting aid for, which perhaps might not be as important as others for U.S. policy considerations. She then suggests that rather than spreading scarce resources, we ought to think about eliminating a few programs.

For example, do we really need E.S.F. programs in Madagascar, Mauritius, Niger and certain others? I don't mean to pick these countries out necessarily, but I wonder if the objectives and goal that you describe in your statement necessarily apply to all of these countries with which we have E.S.F. programs?

Mr. Schneider: Back in December, Mr. Chairman, after passage of the final C.R., we undertook the painful process of determining how best to distribute the reduced amounts appropriated for foreign assistance. These decisions were made in full accordance with the Administration's priorities, which I touched on in my opening statement. We feel that each of our decisions on country aid levels was fully justified under the international political and domestic budgetary situations prevailing at that time.

CONTINGENCY FUND

Senator Kasten: The Administration is requesting a $50 million supplemental for "foreign assistace contingencies."

The Budget Appendix describes this request with one sentence: "These funds will be used to meet special foreign policy requirements."

You will agree, I am sure, that that is a bit vague. What do you have in mind?

Mr. Schneider: The $50 million contingency fund is listed in the budget as a supplemental proposed for later transmission. When we put forward a proposal for use of these funds, it will, of course, include adequate justification.

Senator Kasten: Bill, in these days of budget cutting -- trying to find every dollar to cut that we can, a vague contingency fund is completely unreasonable. You know this committee has always opposed "slush funds" -- and this has all the earmarks.

Where exactly are you planning to get the offsetting $50 million from if this were appropriated?

Mr. Schneider: This proposal does not in any way constitute a "slush fund." The Congress will be asked to appropriate the money only once we have put forth a specific proposal for its use. At that time, we will identify the corresponding offset.

WESTERN SAHARA

Senator Kasten: One of our goals supporting assistance to Morocco is a negotiated settlement in the Western Sahara. Can you give the subcommittee an update on that situation?

Mr. Schneider: We continue to support and urge a negotiated settlement to the Western Sahara conflict. Both the Moroccans and Algerians have recently signalled renewed interest in bringing this long-standing problem to a satisfactory conclusion. We have urged them to do so.

In the United Nations Fourth Committee debate last fall, we supported a Moroccan resolution calling for a ceasefire and referendum to be organized under the auspices of the Secretary General of the United Nations. The resolution was defeated procedurally. An Algerian-sponsored resolution passed and has resulted in "proximity" talks between Morocco and the Polisario under auspices of the UN Secretary General The Algerian and Mauritanian governments are observerers at those talks.

The Moroccan government's willingness to proceed in this fashion is evidence of the King's serious intent to seek an acceptable solution. Accordingly, we welcome these talks and have again made clear to both the Moroccan and Algerian governments both our desire for progress and our readiness to help the process if it appears this would be useful.

In the meantime, Morocco continues effectively to control most of the disputed areas in the Western Sahara. Polisario military efforts are largely restricted to reconaissance by fire of Moroccan military positions near the Western Sahara borders.

SOVIET ASSISTANCE TO ETHIOPIA

Senator Kasten: Mr. Schneider, on Page 10 (Volume I) of your security assistance Congressional Presentation Document you have a map showing Soviet military assistance and economic assistance.

It looks like the aid Ethiopia receives from the Soviets is 60 percent military and 40 percent economic. Can you tell us approximately what the dollar figures in aid Ethiopia receives from the Soviet Union are? What form does the economic assistance take? Has the Soviet Union been more forthcoming in food aid to Ethiopia?

Mr. Schneider: In addition to economic development loans, Ethiopia received $173 million in non-food emergency relief from the Soviet Union in 1985. According to the Ethiopian press, this includes trucks, transport planes and helicopters. We also understand the Soviets donated a medical facility. As far as we can tell, at least some of the vehicles were used to transport food. However, much of their transport aid was also used to support the forced resettlement program which involved serious human rights abuses. To the best of our knowledge, the Soviet Union provided no food assistance to Ethiopia in 1985. In 1984, they gave the Ethiopians about 10,000 metric tons of rice. However, this was usable only in the urban areas as rural Ethiopians do not consume rice. Ethiopia has received over $3 billion overall in military assistance from the Soviet Union.

SECURITY ASSISTANCE PROGRAM FOR ECUADOR

Senator Kasten: The nature of our security assistance program for Ecuador is changing. In FY 1986 Ecuador received $3,828,000 ($4 million pre-sequester) in FMS grants. The Administration is requesting $8 million in M.A.P. funds for FY 1987, with no request for F.M.S.

I can understand with the precarious economic situation that Ecuador is in that grants make more sense than loans, but this is more than doubling of their military sales program. Can you tell us more about this request?

Mr. Schneider: Military assistance to Ecuador totalled $6.7 million in FY 1985 (FMS, MAP and IMET) and $4.49 million (FMS and IMET) in FY 1986. The proposal to increase that level to $8.65 million (MAP and IMET) in FY 87 is in keeping with the ongoing nature of our program in Ecuador. First, as you suggest, we want to avoid adding to Ecuador's debt burden. Second, our military assistance program aims to reorient the Ecuadorean armed forces, in accord with their own five year plan, toward countering the rapidly developing threat from internationally supported terrorists and from narcotics traffickers. The aim is to upgrade Ecuador's capacity to defend its democratic institutions from these twin threats.

FY 1985 military assistance reflects these priorities. We reprogrammed $2 million in end-of-the-year MAP funds to begin this effort. But MAP was not available in FY 1986. The FY 1987 request is a moderate increase over the previous two years that reflects the growing Ecuadorean government desire to defeat the terrorists and the drug traffickers, and our desire to contribute to that effort.

CIVIC ACTION PROGRAM IN AFRICA

Senator Kasten: The Administration is requesting $10 million in military assistance program funds in FY 1987 for the Civic Action Program in Africa, which is a doubling of the program from FY 1985.

Can you give us more information on this program, and tell us why you need such a large increase?

Mr. Schneider: In 1985, the Administration requested $5 million for civic action; in 1986 we requested $7 million. Because of reduced Congressional appropriations, we were only able to allocate a total of $10 million for FY 85 and FY 86, or $2 million short of the funds required to meet the program's objectives.

The Civic Action line item includes the Africa Coastal Security Program, a program designed to give coastal states a basic ability to patrol and protect their territorial waters, especially from poachers of their valuable fisheries. This program envisions the provision of small patrol craft, communications equipment and surveillance aircraft. The $10 million request level for FY 87 includes not only the items contemplated for 1987 but also items (primarily patrol boats) that were deferred from previous years. While these items are not expensive, they cannot be provided if the amount in the Civic Action line item is less than $10 million.

ADMINISTRATIVE EXPENSES OF FMS PROGRAM

Senator Kasten: This subcommittee, as I believe both you and General Gast know, has received a number of complaints from private concerns that do business through the FMS program.

General Gast, I know that your office has been working with us on trying to make some corrections in your guidelines that have been objected to by a wide spectrum of the industry, and we appreciate that.

Unlike the other programs that we have jurisdiction over, your administrative expenses are not a line item, but rather are paid for out of the program and fees that you collect.

Why shouldn't we have a separate operating expense or administrative expense line item for the Military Assistance Programs?

Mr. Schneider: As you indicated, our Foreign Military Sales (FMS) administrative expenses are not a line item in our budget request. This is because we are required by law to conduct the program at no cost to the U.S. Government and we accomplish this by charging all of our program administrative/ management costs either directly to FMS cases or the administrative fees that we charge the customer. However, in the case of the Military Assistance Program we do have an administrative expense line item in our MAP budget request. It is entitled, "General Costs" and covers the expenses of the Military Departments and DSAA and of our overseas Security Assistance program management offices for implementing the International Military Education and Training Program, the FY 1981 and prior Military Assistance Programs and other non-FMS Security Assistance matters.

Senator Kasten: One of the Primary criticisms we are hearing about the way that DOD and State are administering the military assistance programs, is that taken together, your policies are starting to have the effect of excluding private industry from doing military sales business.

The concern is that you are interested in basically doing most of this yourself at DOD.

Aren't you in favor of the private industry doing as much of this as possible in line with various OMB directives, and in line with what the Grace Commission has suggested?

Mr. Schneider: DOD and State believe that properly administered military sales to our friends and allies constitute a key element of our foreign policy. It is in the U.S. interest to assure that the content of military sales programs enhance the recipient's military capability to the extent possible, achieve the desired degree of interoperability and supportability, and provide United States influence over the end use of the military items sold. It follows that State and DOD strongly support the sale of U.S. - produced items to our friends and allies, and rigorously support the limitation of foreign content as contemplated in Section 42(c) of the Arms Export Control Act. Whether the sale is government-to-government through the FMS system, or is a direct commercial sale from the U.S. supplier to the foreign government involved, private industry is a major and necessary participant in the military sales business. The issue is the extent to which the USG should involve itself to assure that the objectives of the military sales program, as stated above, are realized and complement our foreign policy and national security interests. Further, it must be determined to what extent the USG must involve itself to assure that the military assistance funds appropriated by the Congress are efficiently spent to achieve this result.

The DOD, in general, has no preference regarding foreign military sales on a government-to-government basis vice a direct commercial sales basis. Either method may be preferred given certain circumstances. Further, the DOD only responds to valid requests from foreign countries for the purchase of defense articles and services under the FMS program. U.S. industry on the other hand, is free to market, subject to the export licensing requirements of the International Traffic in Arms Regulation.

In order to facilitate commercial sales and to avoid competition between the DOD and U.S. industry, specific procedures have been implemented by the Defense Security Assistanc Agency. First, when a U.S. firm advises of its direct commercial negotiation with a foreign country, the DOD will generally refrain from providing foreign military sales offers while commercial negotiations are in process. Second, when the manufacturer of a qualifying single source item advises of its preference to sell on a direct commercial basis, the DOD will use its best efforts to comply with the firm's wishes whenever it is deemed consistent

with foreign policy and national security objectives. In certain situations factors pertinent to a specific sale point to a need for a sale through FMS channels. This is especially true in export sales paid for by U.S. Security Assistance funding. Considerations include:

- Whether or not the purchasing country has the necessary staff or expertise to make a wise and prudent commercial purchase. This admittedly sometimes requires subjective judgement. However, some of the purchases made by the Philippines, during the Marcos era for example, highlight the need for this judgement to be made within the USG.

- When U.S. financing is involved, dependence on the FMS system helps to reduce outside influences on the country decision process. Thus, there is increased probability that countries will neet their defense needs by using the U.S. provided financing to purchase the highest prority items. When the administration has worked hard to provide sufficient financing to meet specific requirements it must be assured that the country uses the financing for the right requirement.

- Some sales will only be made through FMS channels because of technology transfer concerns. Export restrictions are much easier to enforce if exact specifications are written into the FMS agreement since the contract justifications are under the complete control of the DOD contracting officer.

- FMS may be more efficient when a program involving mixed buys or program integration is required. The FMS system provides a means to acquire all articles and services from one source since the DOD normally acquires articles and services from many sources and has the capability to meet certain programmatic needs from in-house resources.

- The DOD's stock position or the status of the production line may dictate an FMS sale for certain items. These could include:

  -- When the DOD is in an excess supply position and the sale under FMS would be advantageous to the taxpayer.

  -- When the country has established a cooperative logistics supply support arrangement under which the item is being purchased.

  -- When the production line has only a set capability, and production is already at or near capacity because of DOD requirements.

On the other hand, there are many instances in which a direct commercial sale is acceptable, and even advantageous. In all such cases, we can and do cooperate closely with U.S. industry in their commercial marketing efforts. Such instances include:

- When a fixed delivery commitment, fixed price and/or fixed payment schedule is an absolute requirement by the purchaser.

- When materiel which is nonstandard to the U.S. DOD inventory is required to meet a valid military need of the recipient.

- When there is an offset requirement and the purchaser desires to include all contractual requirements in one contract.

- When the country has the capability to negotiate a direct commercial contract and desires a business-to-business relationship to negotiate cost and contract terms.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

MIDDLE EAST PEACE PROCESS

Senator Hatfield: Your statement mentions the relationship of security assistance and the pursuit of peace in the Middle East. As you know, the FY 85 supplemental provided a substantial increase in Economic Support Funds for both Israel and Egypt. The FY 87 request proposes a continuation of the FY 86 request level, even in the face of overall budget reductions in other federal programs.

Given this enormous commitment of U.S. dollars, please outline the specific diplomatic efforts the U.S. has pursued in the region.

Mr. Schneider: Over the past year we have worked closely and intensively with Israel, Egypt and Jordan in an effort to move the peace process to its next essential objective: direct negotiations between Israel and an Arab negotiating partner. In pursuit of that goal, Assistant Secretary Murphy has made seven trips to the region since last April, I myself went to the area last May, and the President has met with the key leaders here in Washington.

Failure to resolve the issue of Palestinian representation has so far impeded the achievement of our objective despite the best efforts of all three parties. When the parties in the region are ready to try again, however, they will find us ready as always to assist them.

Nevertheless, U.S. diplomatic activity has succeeded in contributing to an understanding on the part of all three governments that efforts towards creating an atmosphere conducive to direct negotiations must continue. As a result, measures are being taken to improve the quality of Palestinian life in the West Bank and Gaza, and the Israel-Egypt relationship has shown gradual improvement over the last few months.

Senator Hatfield: Please describe the specific actions Israel and Egypt have taken to promote peace in the region.

Mr. Schneider: Israel stands ready to enter negotiations without preconditions with its Arab neighbors and continues to make its position clear. In recent months, the Israeli Government has introduced measures designed to improve the quality of life in the West Bank and Gaza. Egypt, for its part, has tried to promote Jordanian and PLO agreement on a strategy that would enable Jordan, together with Palestinian representatives, to enter negotiations with Israel on the basis of Resolution 242.

Egypt and Israel have also sought to promote peace by strengthening their bilateral ties. Over the past year they have engaged in a series of discussions about how to resolve the Taba dispute and other issues affecting their relationship. They have been talking in terms of a "basket deal," which, in addition to settling Taba, addresses ways to improve their relationship. It includes such items as tourism and political dialogue. We have been taking part in these talks at the parties' request.

Egypt's stress has been on moving Taba to arbitration. Israel's focus has been on trade, tourism and such matters as the treatment of Israel in the Egyptian media.

Despite rough patches, both sides have shown great interest in pursuing the talks, and the relationship has shown gradual improvement. Thus, Foreign Ministers Shamir and Meguid met at the U.N. last fall; Egyptian Minister of State Boutros Ghali, Tourism Minister Shindi and Energy Minister Kandil have visited Israel; and official Israeli visitors to Egypt have included Minister without Portfolio Ezer Weizman, Energy Minister Shahal, Tourism Minister Sharir and Abba Eban. Other achievements include the following:

-- Egypt has lifted trade restrictions on Israeli products, and a good relationship has been established regarding agriculture and oil.

-- Egypt recently decided to eliminate special procedures for Egyptians wishing to travel to Israel.

-- Agreement has been reached on a number of bilateral issues such as the repayment of some $3 million in Egyptian debts to Israel for Sinai water pipes and electrical equipment left for Egypt when Israel evacuated the Sinai. In addition, Egypt has cooperated with Israel in efforts to locate Israeli MIAs and agreed in principle to permit the U.S. Navy, in cooperation with Israel, to carry out a search for the missing Israeli submarine Dakar.

-- A significant benchmark in the "Basket Deal" effort was the January 13 agreement by the Israeli cabinet to settle Taba through arbitration. Since then there have been several rounds of discussions on the terms of reference for the arbitration, and this effort is continuing.

-- Talks resumed on March 19 and we expect further progress to be made. Both Israel and Egypt have indicated that they want to close and we have every expectation that the parties will soon make the kind of decisions that will allow us to put this issue behind us.

Senator Hatfield: Your statement mentions that these dollars "facilitate economic development, encourage political moderation and promote regional stability." Could you be more specific as to how U.S. assistance itself actually brings these goals about?

Mr. Schneider: Our ESF disbursements are keyed to promoting improved opportunities for economic development and providing maximum support for reform measures where needed. In Israel and Egypt, ESF provides balance of payments support, helps to maintain budgeted foreign exchange expenditures, and allows the importation of goods and services without massive borrowing at market rates. In Egypt, ESF also provides funding for critically needed projects to meet basic needs: water and sewerage, health, education, and electrification.

The government of Israel is making concerted efforts to implement a stabilization program initiated July 1, 1985 by Prime Minister Peres. Considerable progress has been made to date, thanks in part to the support provided by our ESF program. The budget deficit is down from 16 percent of GNP in 1984 to 7 percent in 1985, resulting in a sharp decline in inflation which currently is running at an annual rate of under 20 percent. This in turn has allowed the government of Israel to keep the shekel/dollar exchange rate stable without an adverse impact on the trade balance.

Balance of payments performance has also improved. Israel ran a civilian current account surplus during 1985 of $600 million because of improved trade performance and an increase in ESF disbursements. This improvement, together with aid disbursements, resulted in more than a billion dollar increase in official reserves to about $3.2 billion at year's end. Israel's foreign debt stabilized and its maturity structure improved, as some short-term debt was repaid in 1985.

In Egypt, our program funds specific sectoral projects as well as balance of payments support through the Commodity Import Program and cash transfers of $115 million proposed for FY 87. These efforts sustain our dialogue with the Egyptian government to promote basic economic reform. One target is a lower budget deficit. Egypt's deficit is about 20 percent of GDP and politically sensitive food subsidies account for almost one-third of the deficit. Through our economic dialogue, Egypt has taken some important steps to reform its economy over the past year. Food subsidies have been reduced and wheat prices, for example, now approach U.S. levels. Energy subsidies have been cut by such measures as a 37 percent increase in electricity rates and a 25 percent increase in gasoline prices. Foreign currency expenditures of the government have been reduced. Despite the February disturbances, President Mubarak affirmed his government's commitment to accelerate economic reform. New measures -- including tax increases, customs reform, and reductions in government operating expenses -- are being implemented. These initiatives represent a solid beginning to the comprehensive reform program necessary to address Egypt's immediate problems and achieve stable, long-term growth.

Economic stablity -- price stability, enhanced levels of productive employment, ample savings and investment, and balanced growth -- encourages a political environment that resists self-destructive extremism. Our economic assistance programs in other countries in the region, though modest in comparison to those in Israel and Egypt, are aimed at promoting these same goals. Our economic policy is essential in sustaining our overall Middle East peace efforts and protecting other vital interests in North Africa, the Persian Gulf and Southwest Asia.

PAKISTAN

Senator Hatfield: On page 8 of your statement you state that the $351 million combined program for Pakistan will "encourage internal economic and political development and help provide the self-confidence needed to make progress in the nuclear non-proliferation area." That is a fairly broad statement. Could you elaborate further on the particulars of that statement for the Committee. Specifically, what internal economic and political policies or actions will be directly changed or modified as a consequence of these funds?

What specific policies or actions has U.S. assistance directly affected in the past? Indirectly?

Mr. Schneider: I would like to address both questions with one answer. The significant U.S. security assistance relationship with Pakistan has afforded us the opportunity to engage the Pakistani leadership in a continuous and fruitful dialogue on issues of key concern to both of us. Through this dialogue, we have reviewed with the highest levels of the Pakistani government such important issues as narcotics control, the necessity of Pakistan economic policy reform to sustained long-term economic growth, and the important connection we see between movement toward more representative political institutions and Pakistan's outlook for long-term stability.

Concerning narcotics control, we now have a program in place which supports Pakistani efforts to combat production, processing, and trafficking. We have seen the level of concern and cooperation among government officials and the populace alike heightened through these efforts. But Pakistan now has its own heroin addict problem, and there is a long way to go before this scourge is eliminated. We can say, however, that our program has made an important difference these past five years and has laid the groundwork for even stronger efforts in the years to come as elected federal and provincial governments in Pakistan come to grips with the problem.

The reform of Pakistan economic policy has been a major objective of our economic assistance program. Our dialogue with the Pakistanis on this issue has recently been expanded through our agreement, in conjunction with the recent announcement of a new post FY 87 multi-year assistance program, to meet annually at a senior level formally to review the progress of our assistance program and the progress the Pakistanis have achieved in economic reform. The Pakistani creation last year of commissions to study steps on deregulating industry and reforming subsidies and pricing was an important advancement we encouraged. The results of these studies are now beginning to be implemented, and we will be working closely with the Pakistanis to encourage further positive concrete actions.

We have welcomed the restoration of constitutional government in Pakistan, a process we have encouraged. We applaud the return to open political activity. The Pakistan government appears committed to the process launched through last year's federal and provincial elections. This is an evolving process, and we believe our security assistance gives Pakistan the confidence to take these bold steps despite the continuing and increasing pressure exerted by the Soviets.

These are several key examples of the many issues we review regularly with the Pakistanis as our relations have broadened, strengthened and matured since 1981. Our security assistance relationship has provided the framework for such a dialogue to develop; our continued assistance will permit this important dialogue to grow.

Senator Hatfield: In addition, I am extremely interested in your statement which implies a linkage between U.S. assistance and changes in Pakistan's nuclear non-proliferation policies. In what respect does U.S. aid affect Pakistan's "self-confidence" in this area? Do you mean to say that U.S. aid will result in changes in policy by Pakistan, such as that nation signing the Nuclear Non-proliferation Treaty?

Mr. Schneider: We are convinced that our program of support which enhances Pakistan's sense of security helps remove the principal underlying incentive for the acquisition of a nuclear explosives capability. Over time, we hope to persuade Pakistan that the pursuit of such a capability is neither desireable nor necessary to its broader security interests. We have also repeatedly made clear to the highest levels of the Pakistan government that our ability to continue our security assistance relationship presumes their restraint in the nuclear area. The President certified last Fall that Pakistan does not possess a nuclear device and that our assistance program contributes significantly to reducing the risk that it will.

At the same time, the South Asia nuclear issue is fundamentally regional in nature. While we will continue to do all that we can to restrain the Pakistan nuclear program, the best prospect for a lasting solution lies in a regional nuclear dialogue. Pakistan's confidence in its security assistance relationship with the U.S is essential to such a dialogue.

BUDGET LEVELS

Senator Hatfield: On page 2 you state "significant reductions in the program -- whether by direct Congressional action or by automatic cuts under the existing deficit reduction legislation -- will seriously cripple our efforts to meet challenges to our vital interests around the globe." I can appreciate your parochial concern, but there are vast numbers of domestic programs proposed for elimination or significant reductions, such as housing programs, student loans, Extension Service, etc. These programs also serve vital national interests. Is a dollar spent on foreign assistance in aiding other countries more justified than a dollar spent on people in the United States?

Is there a greater benefit to the American people in spending U.S. dollars overseas than here in the U.S.?

Given what took place last year in H.J. Resolution 465 with sizeable cuts occuring in foreign aid, plus the potential for similar cuts in FY 87 in both the Budget and Appropriations Committees, isn't it time to reevaluate our foreign aid program in terms of the number of nations assisted?

Is the Department of State communicating with the many nations with whom the U.S. has an aid relationship the prospect of diminishing resources in the future and the likelihood that changes will occur in the level of dollars available? If not, why is this not being done?

Is it realistic to believe the U.S. can maintain current bilateral aid and military assistance relationships if the FY 87 budget request is reduced below the FY 86 Continuing Resolution levels? At what point would diminishing resources force a reevaluation?

Mr. Schneider: With all due respect, Senator, I must begin by sharply disagreeing with the premise behind your questions. The effort to protect vital U.S. interests in the international arena is most definitely not just a "parochial concern," as you term it. International stability is a must if we are to have sustained stability and growth here at home.

As to your specific questions, I would note first that -- as pointed out in our Congressional Presentation Document -- most of the monies appropriated for foreign assistance are spent here at home, not overseas. In the CPD we provide voluminous justification of the importance of the money we are requesting.

You ask about consultations with other countries about

future aid levels. When we presented them with their final FY 1986 aid levels, we clearly explained to recipient governments the budgetary constraints with which we had to work. We also made clear that the situation would not improve drastically, at least in the short run.

Finally, on the subject of who will receive how much aid in FY 1987 and future years, I would stress again that the Administration's request is what we believe is absolutely necessary to carry out our various tasks abroad. Should the Congress appropriate lower levels we will, of course, have to go back and decide how the money can be best used.

GUARANTEE RESERVE FUND

Senator Hatfield: What assumptions are built into the figures for repayments and expenditures in both FY 86 and FY 87? Are these assumptions based on historical trends, scheduled repayments or debt reschedulings?

Mr. Schneider: Projecting the future cash position for the Guaranty Reserve Fund is a complex process. Assumptions must be made with respect to disbursements from the fund, recoveries into the fund, and reschedulings. Any assumptions made should focus on the five or six key countries that represent the bulk of the threat to the Guaranty Reserve Fund. Presently those countries include Israel, Egypt, Turkey, Jordan, Morocco and Sudan. Given the wide range of economic and political factors that could affect the assumptions and the tendency of those factors to fluctuate over the short term, we have not attempted to make assumptions that extend beyond the next two fiscal years. Additionally there may be other countries that have historically met their FMS debt service obligations but may encounter currently unforeseen financial problems in the future.

The assumptions we have made as a basis for the projections that will follow are:

(1) Israel has maintained its excellent payment record and will continue that record.

(2) Turkey will continue to pay both regular and rescheduled payments on time for the next two years.

(3) Egypt will continue to make each regular payment up to one year late but will not reschedule or fall subject to Brooke Amendment sanctions through FY 1987.

(4) Jordan will not reschedule and will make sufficient regular payments in time to avoid Brooke Amendment sanctions. Sudan will face similar considerations.

(5) Morocco will reschedule most of the payments that will fall due in FY 1986 and FY 1987 and will repay only the amounts due from previously rescheduled loans.

Based upon the above assumptions and the fact that the Guaranty Reserve Fund cash balance stood at $271.7 million at the end of FY 1985, the forecast is as follows:

- For FY 1986 - Disbursements from the fund will exceed collections by approximately $130 million. The fund balance at the end of FY 1986 will be about $141 million.

- For FY 1987 - Net disbursements from the fund will be approximately $36 million. Cash in the account at end of year is estimated at $105 million.

The chart below reflects the historical trend of Guaranty Reserve Fund activity, as well as projections for FY 1986 and FY 1987 based on the considerations outlined above:

GUARANTY RESERVE FUND
FISCAL YEAR ACTIVITY SUMMARY
($ THOUSANDS)

	(1) BEG BAL	(2) DISBURSEMENTS	(3) COLLECTIONS	(4) NET OUTLAYS	(5) END BAL
FY 81	1,116,590 1/	-110,420	54,274	-56,146	1,060,444
FY 82	1,060,444	-216,875	74,993	-141,882	918,562
FY 83	918,562	-439,878	321,169	-118,709	799,853
FY 84	799,853	-613,396	365,447	-247,949	551,904
FY 85	551,904	-762,225	373,050	-389,175 109,000 2/	271,729
EST FY 86	271,729	-808,155	677,908	-130,247	141,482
EST FY 87	141,482	-801,392	765,034	-36,358	105,124

1/ Beginning balance - 16 December 1980
2/ Funds appropriated to replenish GRF

Senator Hatfield: Is it the view of the Department of State that the GRF is adequately capitalized to cover defaults and reschedulings in FY 87? FY88?

Mr. Schneider: Our best estimate is that the GRF will not be depleted in FY 1986 or FY 1987. Activity during FY 1986 to date has not changed this assessment. However, it is very important to note that over the longer term this estimate is more likely to be optimistic than pessimistic. There is virtually no probability that repayments will be received more quickly than we have estimated; there is a much higher probability that there will be one or more unforeseen defaults or reschedulings. We need more experience before we can predict the GRF balance during FY 1988.

Senator Hatfield: If not, what action is the Department of State contemplating to recapitalize the GRF?

Mr. Schneider: The Administration intends to propose legislation that would provide for a permanent indefinite appropriation to replenish the GRF. This proposed legislation would amend section 24(c) of the Arms Export Control Act to establish a Guarantee Reserve to pay claims based upon defaults and reschedulings of outstanding loans guaranteed pursuant to the provision of that Act and thus eliminate the need for yearly authorization and appropriation. A permanent indefinite appropriation would establish a long-term mechanism for maintaining the fiscal integrity of the fund. The new reserve would permit the current guarantee reserve balance to be depleted and, thereafter, appropriations would automatically be made available from the General Fund of the Treasury to cover all payments to lenders necessitated by defaults and reschedulings. Amounts subsequently received from borrowing countries will be credited against the new account as is now the case with the Guarantee Reserve Fund. The annual reporting requirement would remain.

Senator Hatfield: I would appreciate your providing the subcommittee with a country-by-country breakdown of the FMS guaranteed or direct loans those nations have received since 1974, the dates of any reschedulings, the overall debt situation of these nations (i.e., short term, long term, concessional, or market rates; U.S. and non-U.S. debt; and commercial or official debt), and an assessment of defaults or rescheduling that they have had on the contingent liability of the GRF.

In addition, I would also request that you provide for the subcommittee a detailed listing of the principal and interest payments of these nations which have defaults or rescheduled debts for the same time period mentioned above, as well as for the FY 87 request if it is approved without change.

Mr. Schneider: The following information is provided in response to your request.

1. Status at 30 April 1986 of each active Direct, Guaranteed, and Rescheduled loan by country.

2. Projected debt service (principal and interest) for FY 1986-FY 1988 by country on all active loans.

3. Guaranty Reserve Fund Activity Report showing FY 1986 activity and cumulative activity (since inception of the fund December 1980) by country.

STATUS OF THE
FMS CREDIT PROGRAM
ACTIVE LOANS
AS OF 30 APR 86

1. EXPLANATORY NOTES

   All amounts are stated in thousands of dollars.

2. COUNTRY

   - G indicates a guaranteed loan with the Federal Financing Bank.

   - D or E indicates a direct FMS or rescheduled loan.

   - RESCD indicates a rescheduled loan.

   - CNCES indicates an FMS loan issued at a concessional interest rate.

   - PW indicates an FMS loan for which all principal and interest repayment has been waived (forgiven).

3. PROGRAM VALUE - Total loan value, less cancellations (if any).

4. AMOUNT REPAID - Includes principal and interest amounts paid or rescheduled.

5. PRINCIPAL BALANCE - Amount of loan unpaid (assumes full disbursement of loan funds).

COUNTRY	RESCD DATE	PROGRAM VALUE	($ THOUSANDS) ---AMOUNT REPAID--- PRINCIPAL	INTEREST	PRINCIPAL BALANCE
BOTSWANA					
811 G		$ 500	$ 400	$ 69	$ 100
821 G		500	255	5	245
831 G		5,000	1,428	810	3,572
841 G		7,000	929	51	6,071
851 D CNCES		5,000	0	0	5,000
Total		$ 18,000	$ 3,012	$ 935	$ 14,988
BOLIVIA					
791 G		$ 6,000	$ 0	$ 65	$ 6,000
Total		$ 6,000	$ 0	$ 65	$ 6,000
SRI LANKA					
821 G		$ 2,000	$ 0	$ 0	$ 2,000
Total		$ 2,000	$ 0	$ 0	$ 2,000
CAMEROON					
801 G		$ 1,000	$ 909	$ 260	$ 91
811 G		4,400	3,520	1,311	880
821 G		1,500	900	366	600
831 G		2,500	733	69	1,767
841 G		5,000	0	0	5,000
851 D CNCES		5,000	0	0	5,000
Total		$ 19,400	$ 6,062	$ 2,006	$ 13,338
COLOMBIA					
782 G		$ 25,000	25,000	7,032	0
791 G		12,500	11,538	4,356	962
821 G		10,000	5,386	4,051	4,614
841 G		7,000	0	0	7,000
842 G		17,500	0	0	17,500
Total		$ 72,000	$ 41,924	$ 15,439	$ 30,076
COSTA RICA					
771 G		$ 5,000	$ 5,000	$ 1,287	$ 0
Total		$ 5,000	$ 5,000	$ 1,287	$ 0

COUNTRY		RESCD	RESCD DATE	PROGRAM VALUE	($ THOUSANDS) ---AMOUNT REPAID--- PRINCIPAL	INTEREST	PRINCIPAL BALANCE
ZAIRE							
761	D			$ 19,000	$ 19,000	$ 8,331	$ 0
765	D			10,000	7,000	4,017	3,000
767	D	RESCD	77/06/17	4,190	4,190	1,877	0
771	D			28,000	19,158	13,195	8,842
777	D	RESCD	79/02/07	7,233	6,630	4,019	603
781	D			17,500	9,211	7,482	8,289
791	D			8,000	3,368	3,358	4,632
801	G			6,100	1,927	2,634	4,173
808	D	RESCD	80/07/28	9,135	3,045	4,122	6,090
809	D	RESCD	80/07/28	5,442	1,814	2,341	3,628
809	E	RESCD	80/07/28	605	605	140	0
811	G			6,000	944	194	5,056
821	G			7,500	0	229	7,500
826	D	RESCD	82/07/23	11,360	947	3,247	10,413
831	G			2,000	0	42	2,000
847	D	RESCD	84/05/03	47,123	0	5,480	47,123
847	E	RESCD	84/05/03	2,480	2,480	243	0
848	D	RESCD	84/05/03	63	11	8	52
867	D	RESCD	85/12/03	22,380	0	798	22,380
867	E	RESCD	85/12/03	1,178	373	52	805
Total				$215,289	$ 80,703	$ 61,809	$ 134,586
DOMINICAN REPUBLIC							
771	G			$ 1,000	$ 616	499	384
791	G			0	0	0	0
801	G			3,200	1,968	1,631	1,232
811	G			3,000	1,383	1,413	1,617
821	G			4,000	0	1,052	4,000
831	G			5,000	0	1,113	5,000
841	G			2,500	0	0	2,500
851	D	CNCES		3,000	0	0	3,000
867	D	RESCD	86/03/06	2,125	0	0	2,125
867	E	RESCD	86/03/06	236	0	0	236
868	D	RESCD	86/03/06	94	0	0	94
Total				$ 24,155	$ 3,967	$ 5,708	20,188
ECUADOR							
771	G			$ 15,000	$ 15,000	$ 4,223	$ 0
781	G			10,000	10,000	3,299	0
801	G			3,000	2,180	1,205	820
811	G			4,000	2,180	937	1,820
821	G			4,500	1,636	999	2,864
831	G			4,000	0	859	4,000
841	G			6,000	0	16	6,000
847	D	RESCD	84/03/19	6,213	0	724	6,213
847	E	RESCD	84/03/19	365	365	46	0
851	D			2,000	0	0	2,000
852	D	CNCES		2,000	0	0	2,000
867	D	RESCD	86/01/14	3,632	0	0	3,632
867	E	RESCD	86/01/14	1,778	0	0	1,778
Total				$ 62,488	$ 31,361	$ 12,308	$ 31,127

COUNTRY	RESCD DATE	($ THOUSANDS) PROGRAM VALUE	---AMOUNT REPAID---- PRINCIPAL	INTEREST	PRINCIPAL BALANCE
EGYPT					
791 G		$1,500,000	$ 0	$ 773,008	$1,500,000
811 G		550,000	0	226,330	550,000
821 G		700,000	0	151,733	700,000
828 D	PW	200,000	N/A	0	N/A
831 G		675,000	0	91,232	675,000
832 G		225,000	0	20,525	225,000
838 D	PW	325,000	N/A	0	N/A
839 D	PW	100,000	N/A	0	N/A
841 G		363,000	0	9,596	363,000
842 G		537,000	0	0	537,000
848 D	PW	187,000	N/A	0	N/A
849 D	PW	278,000	N/A	0	N/A
857 D	PW	1,175,000	N/A	0	N/A
Total		$6,815,000	$ 0	$1,272,424	$4,550,000
EL SALVADOR					
801 G		$ 5,700	$ 1,520	$ 2,874	$ 4,180
811 G		5,000	999	2,492	4,001
812 G		5,000	0	2,497	5,000
821 G		16,500	0	6,577	16,500
831 G		16,500	0	3,063	16,500
832 G		30,000	0	3,646	30,000
841 G		18,500	0	261	18,500
851 D	CNCES	10,000	0	0	10,000
Total		$ 107,200	$ 2,519	$ 21,410	$ 104,681
ETHIOPIA					
741 D		$ 9,231	$ 5,500	$ 1,971	$ 3,731
Total		$ 9,231	$ 5,500	$ 1,971	$ 3,731
GABON					
811 G		$ 2,600	$ 1,888	$ 996	$ 712
821 G		2,600	0	0	2,600
831 G		1,000	0	0	1,000
841 G		3,000	600	130	2,400
Total		$ 9,200	$ 2,488	$ 1,126	$ 6,712
GREECE					
763 G		$ 40,000	$ 40,000	$ 17,681	$ 0
764 G		46,000	43,294	21,143	2,706
771 G		122,000	107,647	52,971	14,353
781 G		64,000	48,940	29,433	15,060
782 G		76,000	53,645	34,996	22,355
791 G		70,000	45,292	34,011	24,708
792 G		70,000	41,174	34,113	28,826
801 G		42,000	0	21,522	42,000
802 G		103,100	48,515	41,151	54,585
811 G		176,500	0	37,937	176,500
821 G		280,000	0	13,444	280,000
831 G		280,000	0	0	280,000
841 G		500,000	0	0	500,000
851 D		242,000	0	0	242,000
852 D	CNCES	258,000	0	0	258,000
Total		$2,369,600	428,507	$ 338,402	1,941,093

COUNTRY	RESCD DATE	($ THOUSANDS) PROGRAM VALUE	---AMOUNT REPAID--- PRINCIPAL	INTEREST	PRINCIPAL BALANCE
HAITI					
781 G		$ 499	$ 499	$ 145	$ 0
811 G		300	180	43	120
821 G		300	0	71	300
831 G		300	0	53	300
Total		$ 1,399	$ 679	$ 312	$ 720
HONDURAS					
801 G		$ 3,530	$ 1,412	$ 1,687	$ 2,118
811 G		5,000	1,332	2,886	3,668
812 G		3,400	903	1,923	2,497
821 G		9,000	0	4,112	9,000
822 G		10,000	0	3,483	10,000
831 G		9,000	0	2,380	9,000
Total		$ 39,930	$ 3,647	$ 16,471	$ 36,283
INDONESIA					
771 G		$ 23,100	$ 21,560	$ 9,190	$ 1,540
781 G		40,000	31,999	16,923	8,001
791 G		32,000	21,330	16,516	10,670
801 G		30,000	18,000	14,565	12,000
811 G		30,000	14,000	13,010	16,000
821 G		40,000	10,663	10,920	29,337
831 G		25,000	3,334	4,356	21,666
841 G		25,000	1,662	1,143	23,338
842 G		20,000	0	0	20,000
851 D		12,500	0	0	12,500
852 D	CNCES	20,000	0	0	20,000
Total		$ 297,600	$ 122,548	$ 86,623	$ 175,052
ISRAEL					
741 D		$ 682,664	$ 341,332	$ 163,583	$ 341,332
742 G		300,000	120,000	257,352	180,000
748 D	PW	500,000	N/A	0	N/A
749 D	PW	1,000,000	N/A	0	N/A
759 D	PW	100,000	N/A	0	N/A
761 G		200,000	0	161,658	200,000
762 G		550,000	0	381,126	550,000
765 D	PW	100,000	N/A	0	N/A
766 G		100,000	0	70,806	100,000
768 D	PW	100,000	N/A	0	N/A
769 D	PW	650,000	N/A	0	N/A
771 G		500,000	0	319,007	500,000
778 D	PW	500,000	N/A	0	N/A
781 G		500,000	0	325,605	500,000
788 D	PW	500,000	N/A	0	N/A
791 G		500,000	0	305,193	500,000
792 G		2,200,000	0	1,170,399	2,200,000
798 D	PW	500,000	N/A	0	N/A
801 G		500,000	0	318,972	500,000

COUNTRY			RESCD DATE	PROGRAM VALUE ($ THOUSANDS)	AMOUNT REPAID PRINCIPAL	AMOUNT REPAID INTEREST	PRINCIPAL BALANCE
ISRAEL (continued)							
808	D	PW		$ 500,000	$ N/A	$ 0	$ N/A
811	G			250,000	0	151,243	250,000
812	G			450,000	0	282,632	450,000
813	G			200,000	0	0	200,000
818	D	PW		250,000	N/A	0	N/A
819	D	PW		250,000	N/A	0	N/A
821	G			850,000	0	345,044	850,000
828	D	PW		70,000	N/A	0	N/A
829	D	PW		480,000	N/A	0	N/A
831	G			300,000	0	76,034	300,000
832	G			650,000	0	147,277	650,000
837	D	PW		200,000	N/A	0	N/A
838	D	PW		550,000	N/A	0	N/A
841	G			250,000	0	37,509	250,000
842	G			600,000	0	0	600,000
848	D	PW		250,000	N/A	0	N/A
849	D	PW		600,000	N/A	0	N/A
856	D	PW		300,000	N/A	0	N/A
857	D	PW		1,100,000	N/A	0	N/A
867	D	PW		600,000	N/A	0	N/A
868	D	PW		1,122,600	N/A	0	N/A
Total				$19,805,264	$ 461,332	$4,513,440	$ 9,121,332
JAMAICA							
811	G			$ 1,587	$ 106	$ 871	$ 1,481
821	G			1,000	0	412	1,000
857	D	RESCD	84/11/08	218	0	57	218
857	E	RESCD	84/11/08	59	59	11	0
858	D	RESCD	85/09/26	277	0	3	277
				$ 3,141	$ 165	$ 1,354	$ 2,976
JORDAN							
751	G			$ 30,000	$ 30,000	$ 10,291	$ 0
761	G			82,500	78,083	25,058	4,417
771	G			75,000	58,332	31,200	16,668
781	G			71,000	51,272	28,054	19,728
791	G			67,000	44,280	29,770	22,720
801	G			50,000	13,159	22,440	36,841
811	G			42,100	18,419	13,781	23,681
821	G			54,900	14,640	12,734	40,260
831	G			40,000	5,329	8,053	34,671
832	G			11,500	1,533	365	9,967
841	G			25,000	1,563	500	23,437
842	G			90,000	0	3,894	90,000
851	D			30,000	0	0	30,000
852	D			12,500	0	0	12,500
853	D	CNCES		47,500	0	0	47,500
Total				$ 729,000	$ 316,610	$ 186,140	$ 412,390
KENYA							
761	G			$ 15,000	$ 14,117	$ 5,548	$ 883
765	G			15,000	14,117	5,798	883
771	G			15,000	12,354	6,618	2,646
781	G			15,000	11,472	6,667	3,528
782	G			12,000	7,857	5,681	4,143
791	G			10,000	5,880	5,321	4,120
801	G			20,000	7,371	11,494	12,629
811	G			6,000	1,576	3,061	4,424
821	G			22,000	2,314	4,107	19,686
831	G			10,000	0	1,620	10,000
841	G			10,000	0	0	10,000
Total				$ 150,000	$ 77,058	$ 55,915	$ 72,942

COUNTRY		RESCD DATE	($ THOUSANDS) PROGRAM VALUE	---AMOUNT REPAID---- PRINCIPAL	INTEREST	PRINCIPAL BALANCE
KOREA (SEOUL)						
781 G			$ 275,000	$ 235,716	$ 119,306	$ 39,284
791 G			35,000	27,500	15,670	7,500
792 G			190,000	135,710	91,448	54,290
801 G			114,600	65,484	55,606	49,116
802 G			14,400	8,220	7,170	6,180
811 G			54,500	27,249	29,941	27,251
812 G			107,000	22,520	61,388	84,480
821 G			166,000	26,208	63,941	139,792
831 G			55,000	0	14,944	55,000
832 G			130,000	0	30,032	130,000
841 G			130,000	0	22,526	130,000
842 G			100,000	0	6,667	100,000
851 G			100,000	0	7,591	100,000
852 G			120,000	0	1,137	120,000
853 G			10,000	0	0	10,000
Total			$1,601,500	$ 548,607	$ 527,367	$1,052,893
LEBANON						
791 G			$ 42,500	$ 38,636	$ 14,266	$ 3,864
801 G			22,000	14,000	8,956	8,000
811 G			20,000	5,454	4,640	14,546
821 G			10,000	909	2,117	9,091
831 G			10,000	0	2,139	10,000
832 G			90,000	0	8,136	90,000
841 G			15,000	0	0	15,000
Total			$ 209,500	58,999	$ 40,254	150,501
LIBERIA						
801 G			$ 1,400	$ 1,120	$ 646	$ 280
802 G			1,070	856	358	214
811 G			1,700	773	899	927
812 G			3,000	1,362	1,671	1,638
818 D	RESCD	81/05/07	1,731	0	538	1,731
818 E	RESCD	81/05/07	192	192	39	0
821 G			7,000	0	2,032	7,000
831 G			6,000	0	472	6,000
837 D	RESCD	82/10/19	812	0	128	812
837 E	RESCD	82/10/19	90	68	11	22
838 D	RESCD	82/10/19	584	0	118	584
838 E	RESCD	82/10/19	65	32	8	33
847 D	RESCD	84/06/22	3,235	0	452	3,235
847 E	RESCD	84/06/22	359	0	0	359
857 D	RESCD	85/05/03	2,642	0	0	2,642
857 E	RESCD	85/05/03	294	0	0	294
Total			$ 30,174	$ 4,403	$ 7,372	$ 25,771
MALAYSIA						
801 G			$ 7,000	$ 4,842	$ 580	$ 2,158
811 G			10,000	1,538	1,464	8,462
821 G			10,000	1,538	367	8,462
831 G			4,000	0	0	4,000
841 G			10,000	0	0	10,000
851 D			4,000	0	0	4,000
Total			$ 45,000	$ 7,918	$ 2,411	$ 37,082

COUNTRY		RESCD DATE	($ THOUSANDS) PROGRAM VALUE	---AMOUNT REPAID--- PRINCIPAL	INTEREST	PRINCIPAL BALANCE
MOROCCO						
781 G			$ 43,000	$ 37,266	$ 19,073	$ 5,734
791 G			40,000	31,999	17,797	8,001
792 G			5,000	3,664	2,613	1,336
801 G			25,000	16,623	12,840	8,377
811 G			33,400	5,272	17,835	28,128
821 G			30,000	3,157	10,707	26,843
831 G			20,000	1,046	2,226	18,954
832 G			33,000	0	4,442	33,000
833 G			22,000	0	2,021	22,000
841 G			38,750	0	0	38,750
847 D	RESCD	83/12/30	46,553	0	5,188	46,553
847 E	RESCD	83/12/30	6,846	1,413	624	5,433
848 D	RESCD	83/12/30	29,931	8,381	7,123	21,550
851 D	CNCES		3,000	0	0	3,000
852 D	CNCES		5,000	0	0	5,000
867 D	RESCD	85/12/23	20,793	0	0	20,793
867 E	RESCD	85/12/23	2,310	0	0	2,310
868 D	RESCD	85/12/23	49,166	0	0	49,166
868 E	RESCD	85/12/23	4,097	0	0	4,097
Total			$ 457,846	$ 108,821	$ 102,489	$ 349,025
OMAN						
801 G			$ 15,000	$ 10,000	$ 6,956	5,000
802 G			10,000	6,665	4,565	3,335
811 G			10,000	5,998	4,751	4,002
812 G			15,000	8,005	6,065	6,995
821 G			30,000	12,000	8,998	18,000
831 G			30,000	8,000	4,511	22,000
841 G			40,000	0	0	40,000
851 D			40,000	0	0	40,000
Total			$ 190,000	$ 50,668	$ 35,846	$ 139,332
NIGER						
811 G			$ 2,300	$ 1,150	$ 553	$ 1,150
821 G			2,000	460	39	1,540
831 G			1,200	0	0	1,200
847 D	RESCD	84/06/11	507	0	59	507
847 E	RESCD	84/06/11	72	15	10	57
857 D	RESCD	85/04/09	915	0	43	915
857 E	RESCD	85/04/09	89	0	0	89
Total			$ 7,083	$ 1,625	$ 704	$ 5,458
NICARAGUA						
751 G			$ 3,000	$ 2,625	$ 336	$ 375
Total			$ 3,000	$ 2,625	$ 336	$ 375
PERU						
781 G			$ 8,000	$ 8,000	$ 2,605	$ 0
791 G			4,995	4,000	2,193	995
798 D	RESCD	79/07/05	9,397	6,578	3,797	2,819
801 G			3,000	1,800	986	1,200
811 G			4,000	1,600	860	2,400
821 G			4,500	900	610	3,600
831 G			4,000	0	89	4,000
841 G			10,000	0	229	10,000
847 D	RESCD	84/03/09	9,445	0	1,082	9,445
847 E	RESCD	84/03/09	525	525	42	0
851 D			3,000	0	0	3,000
852 D	CNCES		5,000	0	0	5,000
Total			$ 65,862	$ 23,403	$ 12,493	$ 42,459

COUNTRY	RESCD DATE	PROGRAM VALUE	AMOUNT REPAID--- PRINCIPAL	INTEREST	PRINCIPAL BALANCE
		($ THOUSANDS)			
PHILIPPINES					
801 G		$ 50,000	$ 38,460	$ 7,950	$ 11,540
811 G		50,000	34,614	7,351	15,386
821 G		50,000	13,332	7,493	36,668
831 G		50,000	6,666	4,135	43,334
841 G		50,000	0	105	50,000
851 D CNCES		15,000	0	0	15,000
857 D RESCD	85/07/29	52,977	0	2,916	52,977
857 E RESCD	85/07/29	7,248	399	219	6,849
Total		$ 325,225	$ 93,471	$ 30,169	$ 231,754
PAKISTAN					
831 G		$ 150,000	$ 7,890	$ 45,250	$ 142,110
832 G		50,000	0	13,084	50,000
833 G		60,000	0	16,200	60,000
841 G		100,000	0	21,010	100,000
842 G		200,000	0	41,540	200,000
851 D		150,000	0	14,751	150,000
852 D		175,000	0	6,808	175,000
861 D		200,000	0	0	200,000
Total		$1,085,000	$ 7,890	$ 158,643	$1,077,110
PANAMA					
791 G		$ 1,000	$ 1,000	$ 154	$ 0
821 G		5,000	1,820	1,510	3,180
831 G		5,000	0	1,589	5,000
841 G		5,000	0	1,025	5,000
Total		$ 16,000	$ 2,820	$ 4,278	$ 13,180
PORTUGAL					
821 G		$ 45,000	$ 0	$ 4,128	$ 45,000
831 G		52,500	0	0	52,500
841 G		45,000	0	0	45,000
851 D		55,000	0	0	55,000
Total		$ 197,500	$ 0	$ 4,128	$ 197,500
RWANDA					
811 G		$ 1,500	$ 999	$ 600	$ 501
Total		$ 1,500	$ 999	$ 600	$ 501
SENEGAL					
771 G		$ 8,000	$ 4,631	$ 4,336	$ 3,369
838 D RESCD	82/08/26	1,206	0	286	1,206
838 E RESCD	82/08/26	213	213	33	0
839 D RESCD	83/08/11	1,146	0	257	1,146
839 E RESCD	83/08/11	202	135	34	67
847 D RESCD	84/08/22	1,154	0	154	1,154
847 E RESCD	84/08/22	128	77	18	51
857 D RESCD	85/06/05	1,647	0	0	1,647
857 E RESCD	85/06/05	87	0	0	87
858 D RESCD	85/06/05	551	0	0	551
858 E RESCD	85/06/05	61	0	0	61
Total		$ 14,395	$ 5,056	$ 5,118	$ 9,339

COUNTRY		RESCD DATE	($ THOUSANDS) PROGRAM VALUE	---AMOUNT REPAID---- PRINCIPAL	INTEREST	PRINCIPAL BALANCE
SOMALIA						
801 G			$ 20,000	$ 1,324	$ 9,420	$ 18,676
811 G			20,000	0	6,000	20,000
821 G			10,000	0	2,739	10,000
831 G			10,000	0	1,937	10,000
857 D	RESCD	85/05/09	13,618	0	0	13,618
857 E	RESCD	85/05/09	717	0	0	717
Total			$ 74,335	$ 1,324	$ 20,096	$ 73,011
SPAIN						
771 G			$ 120,000	$ 98,820	$ 47,545	$ 21,180
781 G			120,000	84,700	53,731	35,300
791 G			120,000	70,580	58,548	49,420
801 G			120,000	63,520	64,116	56,480
811 G			120,000	42,340	40,563	77,660
821 G			125,000	29,411	34,831	95,589
831 G			400,000	38,000	81,408	362,000
841 G			400,000	18,927	11,828	381,073
851 D			400,000	0	0	400,000
Total			$1,925,000	$ 446,298	$ 392,570	$1,478,702
SUDAN						
791 G			$ 5,000	$ 2,352	$ 2,022	$ 2,648
801 G			25,000	0	11,689	25,000
811 G			30,000	0	13,929	30,000
821 G			50,000	0	18,269	50,000
826 D	PW		50,000	N/A	0	N/A
828 D	RESCD	82/08/23	9,152	0	3,065	9,152
828 E	RESCD	82/08/23	1,017	1,017	339	0
847 D	RESCD	84/01/21	18,320	0	1,876	18,320
857 D	RESCD	84/12/22	17,789	0	1,155	17,789
Total			$ 206,278	$ 3,369	$ 52,344	$152,909
THAILAND						
772 G			$ 11,300	$ 10,672	$ 3,915	$ 628
781 G			11,300	9,416	4,552	1,884
782 G			18,200	18,200	4,546	0
791 G			30,000	27,857	9,678	2,143
801 G			36,000	6,543	22,379	29,457
811 G			53,400	0	19,018	53,400
821 G			74,700	0	16,377	74,700
831 G			76,000	0	8,345	76,000
841 G			74,000	0	4,123	74,000
842 G			20,000	0	0	20,000
851 D			95,000	0	0	95,000
Total			$ 499,900	$ 72,688	$ 92,933	$ 427,212

($ THOUSANDS)

COUNTRY		RESCD DATE	PROGRAM VALUE	AMOUNT REPAID PRINCIPAL	AMOUNT REPAID INTEREST	PRINCIPAL BALANCE
TURKEY						
765 G			$ 125,000	$ 110,294	$ 45,863	$ 14,706
771 G			69,600	61,412	28,953	8,188
772 G			55,400	42,360	22,209	13,040
781 G			93,700	71,652	40,169	22,048
782 G			81,300	62,166	38,880	19,134
784 D	RESCD	78/09/21	33,302	33,302	13,108	0
786 D	RESCD	78/09/21	10,983	10,983	4,446	0
788 D	RESCD	78/09/21	8,704	8,704	3,143	0
791 G			175,000	46,663	102,675	128,337
794 D	RESCD	79/12/11	53,757	32,254	23,000	21,503
796 D	RESCD	79/12/11	24,546	14,728	10,531	9,818
801 G			50,000	0	28,813	50,000
802 G			150,000	20,000	68,254	130,000
803 G			2,900	386	1,665	2,514
804 D	RESCD	80/10/24	11,454	1,145	4,768	10,309
804 E	RESCD	80/10/24	1,273	1,273	282	0
805 D	RESCD	80/10/24	106,493	0	39,682	106,493
805 E	RESCD	80/10/24	11,833	11,833	2,533	0
806 D	RESCD	80/10/24	17,090	6,409	6,851	10,681
807 D	RESCD	80/10/24	22,608	5,652	8,230	16,956
811 G			175,000	0	82,793	175,000
812 G			75,000	0	22,784	75,000
814 D	RESCD	81/09/24	108,182	0	35,748	108,182
814 E	RESCD	81/09/24	12,020	9,616	2,496	2,404
821 G			343,000	0	50,375	343,000
824 D	RESCD	81/09/24	103,494	0	25,596	103,494
824 E	RESCD	81/09/24	11,499	7,020	1,973	4,479
831 G			150,000	0	30,311	150,000
832 G			40,000	0	2,588	40,000
833 G			100,000	0	5	100,000
841 G			140,000	0	2,592	140,000
842 G			445,000	0	580	445,000
851 D			175,000	0	0	175,000
852 D			60,000	0	0	60,000
853 D	CNCES		250,000	0	0	250,000
Total			$ 3,293,138	$ 557,852	$ 751,896	$2,735,286
TUNISIA						
771 G			$ 25,000	$ 25,000	$ 7,475	$ 0
781 G			25,000	24,044	7,598	956
791 G			20,000	15,996	7,617	4,004
801 G			6,000	4,400	3,229	1,600
802 G			4,000	2,665	1,748	1,335
803 G			5,000	3,330	1,715	1,670
811 G			15,000	3,160	7,894	11,840
821 G			95,000	12,666	28,604	82,334
831 G			35,000	2,333	10,481	32,667
832 G			27,000	0	7,180	27,000
833 G			25,000	0	6,861	25,000
841 G			35,000	0	7,257	35,000
842 G			52,000	0	9,369	52,000
843 G			5,000	0	130	5,000
851 D			25,000	0	1,721	25,000
852 D	CNCES		25,000	0	0	25,000
Total			$ 424,000	$ 93,594	$ 108,879	$ 330,406
CHINA						
781 G			$ 23,500	$ 21,933	$ 7,581	$ 1,567
Total			$ 23,500	$ 21,933	$ 7,581	$ 1,567
YEMEN (SANAA)						
821 G			$ 10,000	$ 0	$ 0	$ 10,000
831 G			4,000	0	0	4,000
Total			$ 14,000	$ 0	$ 0	$ 14,000

FMS CREDIT PROGRAM
PROJECTED DEBT SERVICE
(DOLLARS IN THOUSANDS)

COUNTRY	FY 1986	FY 1987	FY 1988
BOLIVIA	$1,094	$740	$742
BOTSWANA	$3,468	$2,730	$2,561
CAMEROON	$3,690	$2,927	$2,180
COLOMBIA	$13,458	$7,687	$7,203
DOMINICAN REPUBLIC	$5,671	$3,446	$3,575
ECUADOR	$9,722	$5,124	$5,292
EGYPT	$986,480	$540,442	$541,209
EL SALVADOR	$25,404	$15,967	$19,562
GABON	$5,036	$2,176	$1,240
GREECE	$231,133	$237,030	$235,386
HAITI	$139	$124	$128
HONDURAS	$6,658	$7,156	$9,132
INDONESIA	$51,431	$48,313	$40,457
ISRAEL	$1,087,477	$1,116,134	$1,145,172
JAMAICA	$589	$711	$669
JORDAN	$157,866	$83,145	$81,037
KENYA	$24,737	$19,609	$16,412
KOREA	$242,668	$219,894	$186,655
LEBANON	$39,454	$40,981	$33,855
LIBERIA	$7,641	$4,838	$5,562
MALAYSIA	$10,920	$9,225	$8,042
MOROCCO	$120,225	$58,271	$45,607
NIGER	$1,798	$1,377	$1,056
OMAN	$38,887	$38,146	$45,287
PAKISTAN	$123,849	$157,466	$183,894
PANAMA	$2,801	$3,620	$3,364
PERU	$17,747	$6,338	$6,621
PHILIPPINES	$17,009	$51,810	$36,641
PORTUGAL	$9,973	$20,138	$30,052
RWANDA	$416	$369	$0
SENEGAL	$2,458	$1,999	$2,103
SOMALIA	$9,812	$10,015	$10,317
SPAIN	$286,718	$300,280	$279,761
SRI LANKA	$601	$378	$356
SUDAN	$38,831	$21,525	$22,169
TAIWAN	$3,367	$0	$0
THAILAND	$56,258	$63,443	$72,457
TUNISIA	$62,458	$60,306	$56,987
TURKEY	$420,297	$419,454	$405,606
YEMEN	$3,305	$2,835	$2,664
ZAIRE	$38,522	$21,415	$21,322
TOTAL	$4,170,068	$3,607,584	$3,572,335

COMMODITY RESERVE FUND ACTIVITY REPORT - LATE PAYMENTS, RESCHEDULING, AND RECOVERIES
AS OF MARCH 31, 1986

COUNTRY	PAYMENTS FY 82 AND PRIOR (1)	PAYMENTS FY 1983 (2)	PAYMENTS FY 1984 (3)	PAYMENTS FY1985 (4)	FY 1986 TRANSACTIONS: PAYMENTS TO FTD (5)	FY 1986 TRANSACTIONS: RESCHEDULED PAYMENTS (6)	FY 1986 TRANSACTIONS: RESCHEDULED PAYMENTS (7)	FY 1986 TRANSACTIONS: RECOVERIES OF RESCHED.LOANS (8)	CUMULATIVE: PAYMENTS (9)	CUMULATIVE: RECOVERIES (10)	CUMULATIVE: RESCHEDULED PAYMENTS (11)	CUMULATIVE: RECOVERIES OF RESCHED.LOANS (12)	UNPAID LATE PAYMENTS (13)	BALANCE RESCHEDULED LOANS (14)
BOLIVIA	5,871,675	1,437,179	0	254,291	284,857	44,930	0	0	7,960,002	7,393,784	0	0	374,298	0
BOTSWANA	0	104,229	436,998	841,814	236,883	839,310	0	0	1,630,869	1,630,869	0	0	0	0
BRAZIL	0	232,181	8,662,536		0	0	0	0	9,214,717	9,214,717	0	0	0	0
CAMEROON	2,867,388	3,172,563	334,476	1,233,715	0	0	0	0	6,758,662	6,758,662	0	0	0	0
COLOMBIA	5,263,937	0	4,617,492	5,587,636	5,930,297	3,286,319	0	0	19,318,362	16,520,374	0	0	2,799,788	0
COSTA RICA	1,768,869	535,991	0		0	0	0	0	2,304,770	2,304,770	0	0	0	0
DOM REP.	1,080,335	1,673,361	2,273,450	2,780,253	1,311,992	1,371,591	2,361,099	0	9,649,511	7,088,412	2,361,099	0	111	2,361,099
ECUADOR	1,052,639	7,899,082	7,162,168	5,161,744	1,646,125	2,820,253	3,864,050	65,225	23,272,758	12,965,711	10,662,714	365,786	764,333	10,877,318
EGYPT	9,392,832	160,972,671	393,252,370	434,238,149	1256,343,906	219,786,965	0	0	1,271,399,128	785,625,636	0	0	487,965,092	0
EL SALVA	2,431,857	6,175,757	9,290,363	11,935,163	6,387,066	5,676,887	0	0	36,259,944	21,790,367	0	0	13,761,427	0
GAMBIA	512,090	1,174,761	60	255,254	673,733	267,254	0	0	2,715,906	2,349,227	0	0	366,379	0
GREECE	0	0	0	2,327,429	2,439,196	2,327,429	0	0	6,966,625	2,327,429	0	0	2,439,196	0
GUATEMALA	156,972	42,834	0	0	0	0	0	0	199,806	199,806	0	0	0	0
HAITI	121,241	193,662	185,434	168,329	73,825	0	0	0	740,792	668,667	0	0	72,825	0
HONDURAS	1,631,329	1,630,727	5,560,623	2,223,363	2,134,664	2,675,376	0	0	11,999,856	11,999,857	0	0	1001	0
JAMAICA	46,049	56,732	332,211	278,279	219,694	30,818	188,386	0	953,675	462,822	250,243	58,668	1001	491,229
JORDAN	44,466,234	77,238,961	82,269,491	102,386,413	46,992,737	71,869,946	0	0	374,254,676	327,378,673	0	0	46,775,004	0
KENYA	6,260,859	3,117,105	312,436	6,279,680	6,127,752	6,729,212	0	0	22,857,852	21,440,439	0	0	699,412	0
LEBANON	30,607,884	11,946,894	16,997,643	28,860,009	16,849,543	0	0	0	104,757,323	87,907,779	0	0	16,849,544	0
LIBERIA	3,496,874	3,165,878	3,352,961	3,430,934	1,367,734	257,087	0	0	15,013,281	3,707,136	6,086,780	285,311	2,820,172	8,202,773
MOROCCO	128,793,363	41,491,060	41,136,433	46,894,242	21,886,088	3,345,230	38,930,372	6,823,674	271,282,196	122,863,743	130,874,488	8,930,313	7,443,766	121,944,371
NICARAGUA	3,619,273	0	0	0	0	0	0	0	3,619,273	3,629,917	0	0	389,356	0
NIGER	94,612	77,762	387,060	872,334	499,662	45,547	288,844	15,085	2,131,439	364,766	1,383,631	15,085	270,043	1,366,536
OMAN	3,229,341	0	222,314	36,689	0	11,249	0	0	3,808,345	3,808,346	0	0	1001	0
PAKISTAN	0	0	100	0	0	0	0	0	100	100	0	0	0	0
PANAMA	0	222,727	233,687	106,482	730,095	730,095	0	0	1,315,791	1,315,791	0	0	0	0
PARAGUAY	173,371	0	0	0	0	0	0	0	173,371	173,371	0	0	0	0
PERU	11,298,639	2,616,998	10,001,104	6,010,636	2,334,813	0	0	0	33,309,998	5,992,664	10,894,177	5,380,946	6,332,849	11,303,231
PHILIPPINES	0	0	1,706,913	36,739,875	30,239,382	0	29,239,382	399,668	36,776,998	2,775,731	58,000,360	399,665	0	53,660,895
RWANDA	19,874	268,334	94,426	0	0	0	0	0	381,864	381,864	0	0	0	0
SENEGAL	3,984,869	1,316,844	1,292,730	1,173,914	339,631	0	339,631	70,897	8,276,388	1,880,217	6,396,171	331,332	1001	6,064,633
SOMALIA	1,823,962	2,098,313	6,392,620	8,329,842	6,977,241	0	2,238,809	0	25,480,478	6,830,604	14,081,642	0	2,568,432	14,081,642
SPAIN	0	202,167	0	0	73,176	996	0	0	275,388	202,663	0	0	72,680	0
SUDAN	9,817,360	14,899,937	14,995,225	14,939,385	7,814,612	5,436,316	0	0	66,864,834	5,748,776	60,482,699	0	14,632,194	60,482,699
TAIWAN	0	2,980,648	0	0	0	0	0	0	2,980,648	2,980,648	0	0	0	0
THAILAND	0	333	0	0	0	0	0	0	333	333	0	0	0	0
TUNISIA	1,139,849	1,215,778	1	0	16,291	0	0	0	2,355,689	2,374,790	0	0	18,291	0
TURKEY	340,514,906	89,996,788	0	19,725,379	1112,522,961	105,145,185	0	9,955,710	562,260,423	388,368,995	427,849,346	169,471,383	27,102,434	317,377,963
URUGUAY	0	986,227	0	332,894	0	0	0	0	1,319,291	1,319,291	0	0	0	0
ZAIRE	11,820,160	831,788	1,177,467	2,761,439	1,574,364	29,275	1,218,799	183,226	17,311,669	592,665	16,718,345	7,674,185	0	9,044,862
TOTALS	642,310,152	439,677,738	613,393,830	762,224,399	1349,851,110	431,342,690	85,638,712	15,322,691	2,977,699,367	1,687,789,315	731,832,790	192,750,988	630,527,262	599,601,893

COMMODITY RESERVE CASH BALANCE AS OF FEB. 28, 1986

OPENING CASH BALANCE SEP. 30 1985			271,730,737
	FY 1986 DISBURSEMENTS	FY 1986 RECOVERIES	
LATE PAYMENTS TO 31 MAR. 1986	349,851,110		
RECOVERIES FROM RESCHEDULED LOANS TO 31, MAR. 1986		431,342,690	
TOTALS	349,851,110	15,322,691	
NET DISBURSEMENTS (+) OR COLLECTIONS-		446,865,992	
			(72,986,027)
END CASH BALANCE 31 MAR. 1986			198,743,711 (Includes consolidated deposits)

LEGEND

Col.9=Col.1 Thru 8
Col.13=Col.9 -(10+11)
Col.14=Col.11-12

PREPARED AND UPDATED QUARTERLY BY:
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Questions Submitted by Senator D'Amato

ARMS SALES TO SAUDI ARABIA

Senator D'Amato: The State Department is making a strong case for the urgency of the sale of advanced missiles to Saudi Arabia by citing the Iranian threat. If this is so, why then are the delivery dates for the missiles proposed to stretch out through 1989?

Mr. Schneider: The missiles included in this sale will be delivered in 1989-91 to meet future threats and to replace equipment which will have been expended in training or have become obsolescent by that time. The Administration has gone forward with the sale now, however, to achieve important political objectives: to send a clear signal to Iran not to expand the Iran-Iraq war to the moderate Gulf states and to bolster the resolve of these states, with whom we share important security interests. It is important to understand, that missiles of the types involved in this sale are not readily available from stock and do require 3-4 years to manufacture.

Senator D'Amato: If this is just to show a signal of support to Saudi Arabia, isn't it the fact that we have provided them with over $44 billion in arms since 1972 adequate?

Mr. Schneider: To describe all U.S. FMS sales to Saudi Arabia as "arms sales" is false. From 1953 through September 30, 1985, the U.S. Government sold Saudi Arabia just under $50 billion worth of defense articles and services. But only $4.8 billion, less than ten percent of the total, went for weapons and ammunition. A far larger portion, $33.7 billion, was for support services, such as construction, repair, supply operations, training and non-lethal equipment. Construction alone accounted for more than $20 billion --the Saudis, with U.S. assistance, have built from scratch a modern military infrastructure for a country the size of the U.S. east of the Mississippi River. While the timing of elements of these sales may have been influenced by a desire to send a signal, each and every sale represented a U.S. response to a valid Saudi defense requirement. Saudi Arabia, which has very limited military manpower and tremendously important natural resources to protect, obviously must do so with a high-technology defensive system.

NARCOTICS

Senator D'Amato: In a recently released report to Congress by the State Department entitled "International Narcotics Control Strategy Report," it states that there has been "continuing disappointment with the results in Mexico and Bolivia" with respect to reduction of coca cultivation and production. You have requested, however, more than a 100 percent increase in Military Assistance Program assistance and a 35 percent increase in Economic Support Fund assistance for Bolivia.

Our aid to nations which export such illicit drugs to the United States is restricted. How does the State Department justify, therefore, increases to Bolivia given its questionable record on coca eradication? The Foreign Aid Authorization Act of 1985, which was signed into law, states that such assistance may not be provided unless the President certifies that Bolivia has developed a plan to eliminate illicit narcotics production and has agreed to enter in agreement with the U.S. to implement the plan; What is the status of this plan?

Mr. Schneider: Section 611 of P.L. 99-83 requires that in order to receive FY 1987 Security Assistance, the President must certify that Bolivia has developed such a plan and is prepared to enter into an agreement with us to implement this plan. I note a further requirement that, if such certification is made, up to 50 percent of the MAP and ESF funds may be provided only after the President also certifies that Bolivia has met at least half of its 1986 eradication target, and the balance provided only after a third certification that the target has been fully achieved.

We have consulted closely with the Government of Bolivia on all of these requirements. The President certified that Bolivia met the first of its two FY 1986 requirements, and we have already advised Congress of the difficulty of meeting the second requirement on eradication. Yet, Bolivia has made demonstrable progress in interdiction and in seizures of cocaine laboratories. So, we have been discussing with Embassy officials the need for a revised plan, more realistic than perhaps our 1983 agreements proved to be, and we are preparing to negotiate the requisite agreements on narcotics assistance to ensure achievement of that new plan's objectives.

Questions Submitted by Senator Specter

SAFETY OF AMERICANS ABROAD

Senator Specter: The Administration is seeking additional funds for beefing up embassy security worldwide. While I support this effort on behalf of our diplomatic personnel, I am also concerned about the safety of ordinary Americans abroad particularly with respect to foreign airports and ports. What is being done along these lines and is the State Department taking advantage of the leverage the substantial aid for foreign countries contained in this budget request provides to ensure the safety of Americans living and travelling in recipient countries?

Mr. Schneider: The protection of American citizens residing or traveling abroad is a paramount concern of the State Department. The Department's travel advisory program is intended to alert travelers to conditions which may adversely affect them overseas, including security conditions at foreign airports and ports.

As you may recall, after the TWA 847 hijacking last a year ago the Department promptly issued an advisory to let the travelling public know that the U.S. did not consider the security at the Athens airport to be adequate. When the government of Greece installed additional security measures the advisory was lifted. Since then the International Security and Development Act of 1985 - Public Law 99-83 -- has been enacted which mandates that the Secretary of State shall immediately issue a travel advisory when the Secretary of Transportation determines that, as a result of inadequate safety measures, conditions at a foreign airport endanger the safety or security of passengers or crew. Inspections and consultations on this subject are proceeding with a number of foreign governements.

With regard to the second part of your question, two types of aid programs have a bearing on your particular interest. One is the more traditional and general economic and security assistance program. The relationships developing from these assistance programs no doubt have an impact in helping improve working relationships, including on terrorism-related matters, although it is not possible to quantify this. Another factor is that host countries have the primary responsibility for the security of their own citizens and of visitors from other countries. In some situations, the economic and security assistance may help free up other resources which they then can allocate, for example, for protection of airports or embasssies.

The second and more specific type of assistance is the Anti-Terrorism Assistance program, (ATA). In two years over 2,500 civilian officials from 33 foreign governments have participated in the program. The State Department administrates the program and utilizes the facilities of other federal and local agencies. The program helps other countries improve their abilities to protect not only their own citizens but also Americans, and others living or traveling there. It also helps develop closer cooperation with the U.S. in combatting terrorism. Thus, the ATA programs have benefits to the U.S. as well as to the recipient country.

NARCOTICS

Senator Specter: Section 527 of the Appropriations Conference Report on the Continuing Resolution for FY 1986 requires the President to cut off foreign aid to any major drug producing country which, in the President's view, has made inadequate progress in reducing its drug crops. The Administration has requested increased aid for six countries that have failed to meet target levels set by the State Department itself for reduced drug production (Belize, Colombia, Mexico, Pakistan, Peru and Thailand). Total aid requested for these countries is $974,466,000, an increase of $125,056,000 over last year's level. How can the State Department justify this increase in aid when Congress has made it clear that aid should be cut off?

Mr. Schneider: The presumption in the question is unfortunately based on a misunderstanding of the data provided

by the Department in its annual International Narcotics Control Strategy Report. The Department does not set targets per se; instead, P.L. 98-164 requires that we project probable cultivation, net yield, etc., for both the reporting year and the years that follow. These estimates are therefore based on conditions extant at the time the report is prepared, and, assuming that all of the conditions are met, then there is a reasonable expectation that actual production and yield will be within the range of the estimate. The Belize data are a case in point, illustrating the need to examine the conditions underlying the numbers. In the report published February 14, 1985, we projected (page 42) that net production would, given three highly variable conditions, fall in a range between 191 metric tons and 1,271 metric tons, and, in the data tables which follow on page 43, used the 1,271 metric ton estimate as our comparative base with earlier years. On February 21, 1986, we reported that actual production was probably 645 metric tons, well within the range of our estimate--and in fact an estimate that did not take into account an extensive aerial eradication program conducted during the month the report was issued.

Colombia is a good example for our point that the numbers do not tell the whole story. Given that Colombia in 1985 eradicated about 67 percent of its total marijuana crop, including 85 percent of the crop in the traditional northern growing areas, while also making substantial raids on cocaine laboratories and conducting sorely needed tests on herbicides to eradicate coca bushes, any fair assessment is that Colombia is one of the real success stories of the narcotics effort in the Eighties. We had projected in 1984 that, if the chemical tests provided us with a comprehensive eradication tool, we could reduce net coca leaf production to 7,600 metric tons, from 11,080 in 1984. The process required further testing, and the manual eradication program brought the level down to 10,800 metric tons in 1985--an important reduction but not as steep as would have been possible if the chemical process had been available. Like Mexico, Colombia receives no developmental or economic assistance, but Colombia this year is receiving FMS.

Other than narcotics control funds, which P.L. 98-164 exempts from the sanction provision, the Administration has requested no assistance for Mexico. The report on 1985 production cautions the reader about the data; in effect, the Department and other members of the National Narcotics Intelligence Consumers Committee lacked sufficient data at the time the INCSR report was prepared to make estimates on 1985 production of opium poppy or marijuana. As explained in footnotes in the report, the Committee simply rolled over the marijuana data from 1984, and, noting a low estimate of 21 tons and a high estimate of 45 tons for opium poppy, used those extremes as an arbitrary range. We believe production of both crops increased but have not concluded final estimates.

With respect to Peru, the report states that much of the apparent increase indicated by the raw numbers is more correctly attributed to a change in methodology. But, as the report notes, Peru came very close to meeting its commitment in

terms of number of hectares eradicated (5,000 out of 6,000) and the net yield of coca leaf available for conversion to cocaine did not change significantly.

The change in Pakistan may or may not reflect an actual increase, but, as the report explains, is in this instance in large part a reflection of a change in estimation methodology. However, it should be noted that we believe opium production increased sharply for various factors (see testimony before House Foreign Affairs, May 13, 1986) in 1986.

The best estimate for Thailand for 1985 was a range of 25-35 metric tons; the actual yield was 36 metric tons, or about the high end of the projected range. What is perhaps more important is that, in late 1985, Thailand began and has since sustained a most promising eradication campaign.

The essence of Section 481, as amended by P.L. 98-164, is that the President, in determining whether a country has taken adequate steps to cooperate with the United States on narcotics control, shall give consideration to a number of factors, including the degree to which a country reduced narcotics production during the preceding year. There is no automatic cutoff. The Department believes that all source countries can improve their programs, and some need sharp improvement, but is not prepared at this time to recommend cutoffs, given the situations as described in the report narrative.

CUTS IN ECONOMIC ASSISTANCE

Senator Specter: The Five Year Military Plan that the United States negotiated with Israel provides for a 5% increase in military aid to Israel for Fiscal Year 1987. In light of Gramm-Rudman-Hollings budget cuts and the subsequent cancellation of this increase for FY 87, what effects will this lost increase have upon Israel's security and our interests in the Middle East? How will the 4.3% cut for FY 86 effect Israeli security?

Mr. Schneider: We have submitted an overall FY 87 budget which meets Gramm-Rudman-Hollings restraints and would entail no reduction in funding for Israel. Our request represents the results of a joint U.S.-Israeli review of Israel's security needs. We believe our funding request for the region as a whole is adequate to protect our interests in the Middle East.

We do not believe the $129 million in Gramm-Rudman mandated cuts in our security assistance program for FY 86 will jeopardize Israel's security. The GOI has gone to great lengths to accommodate new fiscal realities and has succeeded so far in minimizing potential adverse impact of cutbacks on its military preparedness. Meanwhile, the Israeli economic situation has also improved with the help of our supplemental assistance in FY 85 and FY 86 totaling $1.5 billion.

SAUDI ARMS SALE

Senator Specter: The United States has sold $50 billion in arms to Saudi Arabia since 1973 with $22 billion sold by the Reagan Administration. This year alone, the Saudis have negotiated a $7 billion weapons sale with Great Britain and a $3 billion arms sale with Brazil. How much more is necessary to satisfy the security needs of the Saudis?

Mr. Schneider: First, it is important to point out that of the roughly $50 billion in U.S. FMS sales to Saudi Arabia only $4.8 billion, less than ten percent, represents weapons and ammunition. Over $20 billion was spent on construction alone as Saudi Arabia built from scratch a military infrastructure for a country the size of the United States east of the Mississippi River. As to future security requirements, I simply do not have an answer. Much of the Saudi infrastructure has now been built. Other factors that must be considered include the size and nature of potential threats, the weapons and manpower available to counter those threats, the armed forces' ability to absorb new equipment and training, and the willingness and ability of the government to rely upon outside diplomatic or military support to meet the threats. Saudi Arabia, which has very limited military manpower and tremendously important natural resources to protect, obviously must do so with a high-technology defensive system.

Questions Submitted by Senator Leahy

INCREASES IN SECURITY ASSISTANCE FUNDING

Senator Leahy: Mr. Schneider, in your written statement you've said that you made some hard choices to make this year's security assistance budget fully consistent with Gramm-Rudman.

Let's review for a moment what has happened to our security assistance budget during the past six years of this Administration.

In 1980, we gave you $110 million for the Military Assistance Program. Today you are asking for $996 million, an increase of 805 percent.

In 1980, we gave you $1.9 billion for the Economic Support Fund. Today you're asking for $4.1 billion, an increase of 115 percent.

Om 1980, we gave you $33 million for the International Military Education and Training Program. Today you are asking for $68 million, an increase of 106 percent.

At a time when this Administration is making major cuts in vital domestic programs, you are requesting a 33 percent increase in grant military aid, a 23 percent increase for foreign military training, and a 15 percent increase in

economic support funds over what we gave you last year for these programs.

Mr. Schneider, the Gramm-Rudman bill that I voted for is supposed to reduce federal spending, not increase it. You are asking us to increase security assistance by $1.1 billion over what we gave you last year, at the same time that this Administration is cutting funds for education, health, agriculture and countless other domestic programs that million of Americans depend on for their own security.

What were the hard choices you made when you wrote this 1987 budget, and how do you reconcile these increases with the goals of Gramm-Rudman?

Mr. Schneider: Senator, I think it would be useful if we all began from the same script, as it were.

Our Military Assistance Program for FY 1980 was nearly $280 million. The difference between this and the $110 million you quote was off-budget financing -- the use of receipts from the sale of previously leased military equipment. These funds must be taken into account as having a budgetary impact, for if not spent on the MAP program they would have reverted to the Treasury. Thus, the increase in MAP funding since FY 1980 is by something over a factor of 2, not the factor of 8 you stated.

The reason for this increase is quite simple. In the late 1970s we believed that developing nations were ready to handle more of the burden of their own security and could be switched from grant programs -- such as MAP -- to credit programs. The economic problems encountered by much of the Third World since that time have proven this premise false. We have had to increase grant levels to keep from overburdening our friends in the developing world with more debt problems than they already have.

You also use FY 1980 as your base year for the ESF account. In that year, nearly three-quarters of our ESF funding went to Israel and Egypt. Our total ESF funding for Central America and the Caribbean in that year was $15 million. Today we are requesting nearly $850 million in ESF for that crucial region. There have been a number of other developments since then requiring our support: the war in Afghanistan and the need to support Pakistan, the signing of base rights and access agreements, and so on.

Aid levels have been increased in response to real problems and real opportunities, and with the consent of the Congress.

Gramm-Rudman is a mechanism for bringing the federal budget as a whole into balance. The President's request meets the Gramm-Rudman deficit ceiling for FY 1987, and also is in line with the priorities of this Administration, which recognizes the supreme importance of national security and the contribution that security assistance makes to that security.

CUTTING MILITARY AID PROGRAMS

Senator Leahy: Assuming, for purposes of this hearing, that this committee does not accept your request for a budget increase, which 10 of your military aid programs would you prefer we cut first, beginning with the programs of least importance to our national security? Which 10 of your ESF requests?

Mr. Schneider: It is the role of the Appropriations Committee to propose overall levels for the various foreign assistance programs. Once this has been done and a final Appropriations Bill or CR is passed we will, as always, take a hard look at the total appropriated for assistance and determine how best to distribute it, bearing in mind our priorities and the international situation at the time.

PHILIPPINE SECURITY ASSISTANCE

Senator Leahy: Since 1981 we have given the Philippines $775 million in security assistance. Do you have any idea how much of this money was misappropriated by Mr. and Mrs. Marcos, and whose responsibility was it to keep track of how this money was being spent?

Mr. Schneider: We have monitored closely our assistance to the Philippines to be certain U.S. aid funds are expended for the purposes for which they were intended. The recent press stories about unaccounted funds are, to the best of our knowledge, unfounded. No evidence to support them has been made available to us. Further, the new Philippine government has confirmed that as far as it is aware all AID funds are accounted for at this time.

Since 1980, there have been 17 audits by the A.I.D. Inspector General and at least four GAO audits of our economic assistance programs in the Philippines. Another comprehensive IG audit is currently underway. To date investigations have disclosed no misuse of our economic assistance to the Philippines. In the few instances where the audits found that U.S. aid funds had not been applied strictly for the purpose intended, the Philippine Government reimbursed the full amounts in question to the U.S.

The A.I.D. Inspector General is currently engaged in a full review of E.S.F. monitoring and funds disbursement procedures to determine if there is any foundation to recent allegations regarding misuse of A.I.D. funds.

As the only charges of which we are aware that involve misappropriation of military assistance funds are now being investigated by a Federal Grand Jury, I am not at liberty to discuss the details.

The agencies responsible for administering these funds are the Agency for International Development for economic

assistance and the Defense Security Assistance Agency through the Joint U.S. Military Assistance Group-Philippines for military assistance.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

AID TO CYPRUS

Senator DeConcini: The Administration's request for aid to Cyprus totals $3 million, down from $15 million.

Mr. Schneider: The Administration's request for aid to Cyprus, $3 million, is the same as in previous years. This request reflects our assessment of what is an appropriate and realistic level of funding for bicommunal projects to promote cooperation between Greek and Turkish Cypriots. There is no economic rationale for additional funding for other programs. The Cyprus-America Scholarship Program, for its part, is already adequately funded to maintain the current level of scholarships into the 1990s.

PROGRESS ON CYPRUS

Senator DeConcini: Last year you testified that "we continue to pursue vigorously progress on Cyprus." Please try to persuade me of this rationale. How high of a priority is it? What is Secretary Shultz doing to encourage a breakthrough on this issue?

Mr. Schneider: The achievement of a just and lasting settlement in Cyprus is a high priority for the United States. We believe that the initiative of the United Nations Secretary General is the approach most likely to produce a solution and have urged the two Cypriot sides to cooperate with his current effort. During his late March trip to Turkey and Greece Secretary Shultz expressed strong support for the current effort of the Secretary General and encouraged those governments to do the same. On March 29 the Secretary General presented a draft framework agreement to the Cypriot sides. Ambassador Ridgway stated on April 8 before the House Foreign Affairs Committee Europe Subcommittee that we strongly support this effort by the Secretary General and urged both sides to take advantage of this opportunity to move to the next stage of negotiations in which key issues such as the withdrawal of non-Cypriot troops would be addressed. The President, in his April 14 Report to the Congress on Cyprus, also urged the two sides to cooperate with the SYG's effort. Our major European allies have taken similar positions. The Turkish Cypriots stated on April 21 that they accept the draft framework agreement. However, the Greek Cypriots informed the Secretary General that they would not take a position on the draft framework agreement and asked him to convene either (1) an international conference, an aspect of a proposal recently put forward by the Soviet Union, or (2) a high level meeting between the leaders of the two Cypriot leaders to discuss

withdrawal of Turkish troops and settlers, guarantees and the "three freedoms." The Secretary General is now considering his next steps. We shall continue to use our influence in support of the Secretary General's initiative and a fair and final Cyprus settlement.

EL SALVADOR: INSURGENT PRISONERS?

Senator DeConcini: Aid levels to El Salvador for the Armed Forces have reached substantially high numbers. How successful have the Salvadoran Armed Forces been in seizing and capturing guerrillas?

Mr. Schneider: The insurgents' strength has declined from a high of 9,000-12,000 in 1982-1983 to some 5,000-7,000 in late December 1985, still about twice as many as during their so-called "final offensive" in January 1981. Most of this reduction (which is larger than it appears because the insurgents have continued to recruit during the period) have been deserters who simply returned to civilian life.

Salvadoran prisoner records (for common criminals as well as insurgents) are woefully inadequate; we do not know how many insurgents have been captured.

Captured insurgents are liable to judicial penalties. At present, there are some 900 inmates, combatants and insurgent political operatives, in the two prisons where such prisoners are routinely housed. Wounded prisoners (the majority) are turned over to the ICRC if seriously hurt or hospitalized and submitted to judicial processing if less hurt. Some 600 prisoners took advantage of the 1983 amnesty. Between January 1985 and March 1986, the Decree 50 court found 37 prisoners guilty, 8 not guilty, and dismissed charges against an additional 158. (For most of those released, their release indicated more a determination that they had served enough time awaiting a final ruling than a genuine finding of guilt or innocence.) In addition, some 25 prisoners, including such prominent insurgent leaders as Nidia Diaz, were released in the exchange for President Duarte's kidnapped daughter.

EL SALVADOR: NEED FOR MILITARY ASSISTANCE?

Senator DeConcini: How long to you believe the United States will need to provide this assistance?

Mr. Schneider: In response to improved Salvadoran Armed Forces performance, the insurgents have ceased large-unit tactics and regressed to terrorism and small-unit operations against "soft" targets, especially economic targets. Although insurgent numbers have fallen by about half from their 1982-83 high of 9,000 to 12,000, there are still about twice as many insurgents in the field as in January 1981, when they staged their so-called "final offensive."

In view of the durability of the insurgency and its continued capacity to cause extensive disruption and damage, in

part the result of continued logistical support and other assistance from the Sandinistas in Nicaragua, we see no prospect for signficiantly reducing U.S. military assistance in the short term. Although the nature of the insurgent threat is changing, the Salvadoran military continues: (1) to use ammunition and other expendibles at a rate commensurate with active operations, (2) to require replacement of materiel -- including helicopters -- lost in combat, and (3) to need some upgrade in army, hospital, naval, and air force facilities. Most important, to counter the terrorist threat, assistance to Salvadoran Public Security Forces has taken on new urgency.

SAUDI ARMS

Senator DeConcini: In 1978 the United States sold the Saudis $5 billion worth of F-15s. In 1981, we sold more that $7 billion worth of military arms, including the AWACS. Over the years we have a total sale of almost $50 billion. How can the Administration claim that this new package of $354 million is crucial to their security, especially when they seem to have contributed minimally to Mideast peace?

Mr. Schneider: Saudi Arabia has been a leader within the Arab world in shifting the consensus away from confrontation with Israel to constructive efforts to achieve peace. Saudi policies have complemented our own, even when not supporting our positions completely because of the Saudi commitment to Arab solidarity. For instance, despite their reservations, the Saudis took a neutral public stance toward the Reagan Plan and supported the Hussein initiative. In Lebanon, Saudi Arabia played a constructive role, attempting to end the fighting and assisting the U.S. in extricating our forces. Saudi Arabia has taken a number of steps to move the Arab consensus back toward recognition of Egypt -- including working quietly to ensure Egypt's reentry into the Organization of the Islamic Conference.

We have explained above that the major part, indeed the vast preponderance of Saudi military expenditures in the U.S. have been for construction, training and support services, and not for weapons hardware or ammunition. As for the new missile sale, we consider it justified by Saudi Arabia's defensive requirements, as validated by the U.S. armed forces, to protect vital oil facilities and shipping lanes of the Persian Gulf. We believe that this sale is justifiable on the grounds of protecting our, and the Saudis, very real interests in the Gulf, and has little connection with the debate concerning Saudi Arabia's contribution to the Middle East peace process. Moreover, we believe that Saudi Arabia has made contributions to that process which should not be denigrated.

The Administration is convinced that this sale is essential in helping Saudi Arabia, a friendly moderate state with which we have had close and mutually beneficial ties for over forty years, to meet military threats in the future. We have not described the sale as crucial to Saudi security; to do so suggests that this sale can somehow be isolated from the overall Saudi effort to build a credible Saudi and Gulf

deterrent. The Administration believes that the missiles included in this sale constitute a highly important element in the Saudi-led GCC effort to establish an effective air defense umbrella for the region. Air defense is, however, only one important aspect of Saudi and GCC defense policy.

PHILIPPINES: NEW PEOPLE'S ARMY

Senator DeConcini: What are your latest reports on the strength of the New People's Army? Have they agreed to negotiate with President Aquino or are they continuing to disrupt the economy and kill civilians?

Mr. Schneider: Our current estimates put the strength of the communist New People's Army at approximately 20,000 full time guerrillas and about as many part time insurgents. As far as we know they have not expressed interest in President Aquino's proposed amnesty offer nor have they agreed to negotiate with the Aquino government. The insurgents have mounted a number of successful attacks since Mrs. Aquino assumed the presidency. In these attacks significant numbers of government security forces and civilians have been killed, including the dean of Philippine combat photographers. If the trend line continues, this could be the worst year of violence by the New People's Army to date.

PHILIPPINES: ADDITIONAL AID

Senator DeConcini: What did Mr. Habib report with respect to future aid programs to the Philippines? What are the Administration's plans? Do you expect or hope to off set any of this aid with recovered monies from the Marcoses' investments, art works, jewelry, and negotiable instruments in the documents?

Mr. Schneider: Ambassador Habib recommended that increased aid be given to the Philippines. In order to formulate an effective, well-targeted aid program, a high-level team led by AID Administrator McPherson was sent to Manila to discuss in detail assistance requirements with the new government. On the basis of the McPherson team's discussions and report, the Administration has proposed $150 million in new assistance to the Philippines, $100 million in economic aid and $50 million in military aid.

In regard to the Marcoses' holdings, jewelry, etc., the conclusion can not simply be drawn that the money and assets of former President Marcos must have been acquired through stolen U.S. tax dollars given to the Marcos government in the form of foreign aid. We intend to place property detained by U.S. Customs to which there are conflicting claims of ownership in an interpleader proceeding in order to allow the Hawaii Federal District Court to resolve these conflicting claims.

MIDDLE EAST PEACE PROCESS

Senator DeConcini: What role can and should the U.S. play in facilitating the return of full diplomatic relations between Israel and Egypt? Should the return of the Egyptian Ambassador to Israel be part of this effort?

Mr. Schneider: Over the past year we have played a facilitative role in continuing discussions between Israel and Egypt about how to resolve the Taba dispute and other issues affecting their relationship. They have been talking in terms of a "basket deal" which, in addition to settling Taba, addresses ways to improve their relationship. It includes such items as tourism and political dialogue, and specifically, the return of the Egyptian Ambassador to Israel. We have taken part in these discussions at the parties' request and intend to continue to do so.

LAVI RESEARCH AND DEVELOPMENT

Senator DeConcini: Last year, $400 million was identified for research and development on the Lavi program out of $1.8 billion in military assistance. What will this figure be this year?

Mr. Schneider: The FY 87 request for Israel is $1.8 billion and makes no reference to the Lavi.

NON-LETHAL ASSISTANCE TO THE CONTRAS

Senator DeConcini: Mr. Secretary, the framework and terms of debate defined by the administration on aid to the contras have been completely and categorically misrepresented. This entire process has been insulting to the U.S. Congress and the American people. This is not simply communism vs. democracy, but entails complex foreign policy interests. I am undecided on this issue but would like to ask you a few questions on how the $27 million in non-lethal assistance has influenced the following:

Has it assisted in uniting the various factions of the rebel groups, including the Indians, or has it fragmented them?

Mr. Schneider: The aid has helped bring the various factions together. There is cooperation among the FDN, Eden Pastora's forces on the southern border, and the East Coast groups. In addition, the Indians are currently working to create a unified opposition force.

Senator DeConcini: Has the United Nicaraguan Opposition (UNO) been re-structured so as to put more political leaders in charge rather than ex-national guards?

Mr. Schneider: The leadership of UNO is composed of three long-time opponents of Somoza. Calero and Cruz were jailed by Somoza, and Cruz and Robelo served on the original junta until

they became aware of the communist orientation of the FSLN who took control.

Of the FDN military leadership, the largest resistance group, 53% had no military background, 27% are former National Guardsmen, and 20% are former Sandinistas.

Senator DeConcini: How has the money been spent to guarantee human rights compliance?

Mr. Schneider: The money has provided humanitarian aid. The President's request for $100 million specifies that $3 million will go toward supporting human rights activities.

The resistance has, however, made a concerted and successful effort to ensure proper conduct by its members. A human rights office headed by the former chief of the Nicaraguan Red Cross was established to monitor the human rights situation. UNO's prosecutor has tried and won cases involving improper conduct by the resistance. Finally, a training program for the leadership and members has been established and implemented.

Senator Deconcini: Has it detracted from the diplomatic track, i.e. Contadora?

Mr. Schneider: Aid to the resistance has supported, not detracted from, the Contadora Process. Nearly seven years experience shows that the Sandinistas only negotiate when forced to. Denying aid to the resistance would not lead to a peaceful solution to the region's problems. The resistance exists because the Sandinistas refuse to tolerate political dissent. The resistance will continue to fight until the Sandinistas come to terms with their own people.

Senator Deconcini: Will a 400% increase accomplish the administration's intended policy?

Mr. Schneider: The President's request supports negotiations and provides needed aid to the resistance if negotiations fail. It allows the resistance to defend itself while efforts are made to open negotiations, and offers bilateral talks with the Sandinistas if they will negotiate with the resistance.

The aid will give the resistance the ability to better counter the most powerful army in the region's history, and to conduct sustained operations over a larger area. Hopefully, the increased pressure will lead the Sandinistas into negotiations as they face the possibility of being overwhelmed by popular discontent.

SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee will stand in recess until 2 p.m., tomorrow, when we will receive testimony on the budget request for Eximbank.

[Whereupon, at 3:25 p.m., Tuesday, March 18, the subcommittee was recessed, to reconvene at 2 p.m., Wednesday, March 19, 1986.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1987

WEDNESDAY, MARCH 19, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:05 p.m. in room S–126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, D'Amato, Specter, and DeConcini.

EXPORT-IMPORT BANK

STATEMENT OF JOHN A. BOHN, JR., FIRST VICE PRESIDENT AND VICE CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

ACCOMPANIED BY JAMES HESS, TREASURER-CONTROLLER

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

This afternoon, we continue our 1987 budgetary hearings with testimony from Mr. John Bohn, the Vice Chairman of the Export-Import Bank in support of the budget requests for that institution. John, we welcome you in your first appearance before the subcommittee and congratulate you on your nomination to replace William Draper as Chairman of the Eximbank. Your appearance before this subcommittee comes at a time when reports indicate that once again, the United States broke all records by posting a trade deficit of $117.7 billion.

Together with these reports is the far more interesting and potentially damaging report that the United States has now joined the top four of the world's debtors. In an article in this morning's Washington Post, which you might have seen, former Assistant Secretary of the Treasury, Fred Bergston called the U.S.'s new status as a debtor nation, and I quote, "a massive deterioration in America's international financial position."

The Export-Import Bank is supposed to be one of the primary weapons at our disposal to combat this trade gap. Yet it, too, because of grossly inadequate budget requests over the past several years, has deteriorated.

Your full statement will be included in the record. I would ask that you present a summary of your statement before we proceed to questions.

Senator DeConcini, do you have an opening statement?

Senator DECONCINI. No. Thank you, Mr. Chairman.

Senator KASTEN. Senator Inouye, because of family concerns, is unable to be with us today. I am pleased that Senator DeConcini has joined us.

Why don't you go ahead with your testimony, John.

Mr. BOHN. Thank you, Mr. Chairman. I am pleased to be here.

TRADE POLICY

Today, the Eximbank is being asked to play an important role as part of President Reagan's program to address our international trade deficit. The President's trade policy is based on keeping international markets open on a freely competitive basis. The Eximbank has performed an important role in leveling the playing field in international trade.

The President, in his budget and his legislative requests, has made it clear that he wants us to continue our role in combating unfair trade practices by foreign competitors and keeping markets open for American exporters.

As you know, the U.S. Government is pressing our OECD counterparts to raise the level of the minimum grant element in tied-aid credits from 25 percent to 50 percent.

At the President's direction, Eximbank last year began an aggressive campaign of targeted mixed credit action directed at those countries that have been impeding these negotiations.

FAIR EXPORT FINANCING PROGRAM

To further our negotiations, the President has requested the establishment of a new Fair Export Financing Program, to be administered by the Treasury Department. With a $300 million war chest of grant money to combine with Eximbank's regular export financing, this program could support up to $1 billion in U.S. exports. It should provide a firm push to move our OECD counterparts back to the negotiating table. We would urge you to support this request.

I may add, Mr. Chairman, that last week there were some discussions in Paris along this line, and whereas I would like to report some movement, frankly, so far, it is still disappointing. There is still a resistance on the part of a number of our trading partners to go as far as we would like to ending this pernicious process. It will, no doubt, be a discussion at the meeting in April of the Ministers.

I would like to report progress; unfortunately, at this point, I really can't report as much as I would like to.

BUDGET REQUEST

The President has also requested legislation to extend the Eximbank's charter through fiscal 1991 and to provide authority for a new Eximbank interest rate matching program.

Our request for fiscal 1987 consists of $12 billion for guarantees and insurance, including $1.8 billion earmarked for the new interest match-

ing program. We are also requesting $19.175 million for administrative expenses.

I-MATCH II PROGRAM

The I-Match II Program that we are proposing as a replacement for our direct lending is an improved version of the program proposed a year ago. The program is designed to make major budgetary savings. At the same time, it will increase opportunities and incentives for private commercial banks to become more involved in the financing of U.S. exports.

We are requesting I-Match II authority to support private sector lending at consensus rates up to $1.8 billion for fiscal 1987.

U.S. STATUS APPROACHING 1987 BUDGET

Let me turn now, if I might, to some evaluation of where we are so far this year as we begin to look out for 1987.

At the end of the first 5 months of fiscal 1986, we had authorized loans of about $280 million or about one quarter of our fiscal year 1986 limitation. But business is picking up. Within the next few weeks, exporters will be in to convert some outstanding preliminary commitments into actual authorizations because they have recently won orders. General Electric has won a $100 million order in China and an $18 million contract in India. Both will require Eximbank financing. The same goes for a $27 million contract for Control Data. Island Creek Coal will also need our financing for $107 million for an order they have won in China.

All these orders we consider to be 100 percent certainties. In forecasting demand for our present direct credit program, we do a running probability analysis on all preliminary commitments we have outstanding. Right now, we have about $5 billion in outstanding preliminary commitments; that is, offers to finance projects and products if the American supplier gets the business.

In consultation with the U.S. exporter, we estimate the chance of a U.S. supplier getting the order and chances of the order being placed in the current year and in the next fiscal year. We also try to determine whether it would require a loan or can proceed with a financial guarantee. We are constantly reviewing and updating these estimates.

FISCAL 1986 AUTHORIZATIONS

For fiscal 1986, we have already authorized Direct Credits of $99 million, and our projected demand for the rest of the year is $772 million. This figure includes $297 million for orders already received by the American supplier, but where the loan has still to be authorized.

That puts direct credit projections at about $870 million for fiscal 1986. We estimate our Medium-Term Credit Program and Small Business Credit Program will use about $360 million in budget authority during the year. These are smaller orders, and our projection here is based on our experience over the past.

This suggests a total credit demand of about $1.23 billion for the current year, which exceeds our present limitation of $1.062 billion and means we would have to accommodate the excess out of our fiscal 1987 budget.

FORECASTING EXPORTS AND IMPORTS

Let me digress here, if I might, Mr. Chairman, and try to go over with you briefly how we look at some of these numbers because forecasting is, at best, an inexact science. What we have done in the past is to take a trend analysis in terms of exports which have been traditionally supported by the Eximbank and have gone to developing countries. We have looked at those on a trend basis, and that represents about 11 percent of exports in this area.

Based on the historical trend extrapolation that we have done in the past, we get a projection for 1987 of about $1.25 billion to about $1.35 billion. You can appreciate, at best, this is an inexact science, but this is pretty much where we have come out.

Our projections in the past using this same methodology have been pretty close. The difference from the past, however, has been that the projections for 1987 are made without aircraft and they are made without nuclear. In the past, what we have done is to look at this model and extrapolate it out and then look at nuclear demand, look at the aircraft figures, and come to a much larger number. But in the interest of trying to be as conservative as we can, we tried to look at this in the most logical way and based on the experience we have.

The probabilities that I related to earlier are really what is in-house now. These are preliminary commitments which are already in-house. We have evaluated each one, and based on the probability of the U.S. exporter winning each export order, come up to a number of about $416 million.

MEDIUM-TERM BUSINESS

We are now talking about roughly $400 million in medium-term business; that is typically the business that is done, as you know, by the medium- and small-sized company, and that, together with estimates of new business which is not yet a preliminary commitment, gets us pretty close to $1.8 billion.

I don't really want to try to say that $1.8 billion is any kind of a defensible number in this sense: In this kind of projection, one does the best one can with the numbers one has to work with. Whether it turns out to be $1.6 billion or $2.1 billion, we really can't get that exact.

ECONOMIC FACTORS AFFECTING DEMAND

Having done all of this, what we have tried, then, to do is to sit back and look at the impact of the declining dollar, the impact of which should be felt beginning in the next 6 months and certainly through 1987.

CIRCUMSTANCES IN KEY U.S. MARKETS

We tried also to look at an appraisal of what is going to happen economically in our key markets: Mexico, Brazil, Argentina, and in Asia, particularly India and China, and we tried to get some idea as to whether or not the demand in the Latin American countries is apt to come back, because many of the exports that we have financed historically have been certainly in these major Latin American countries.

Whether they will recover or not depends a great deal on the success each of these major Latin countries have in dealing with its own debt problem. We think enough progress will be made by the beginning of 1987 so that we will begin to see more demand picking up in these countries. We certainly can't guarantee that. There is a rocky road that needs to be taken by a number of these countries before they, in fact, get to that position.

But the atmosphere, some of the encouraging signs from Brazil and from Mexico, from Argentina, lead us to believe that with the focus on growth as distinguished from the austerity they have had before, that we will see some additional demand.

All of this is really several different ways to look at a projection of demand, and our best judgment at this point is that the $1.8 billion which we have requested will cover the needs of the exporting community for 1987.

AIRCRAFT SALES

I want to emphasize one point. These projections, that is, the $1.8 billion, assumes no direct lending or I-Match support for any aircraft sales. Indeed, in 1985, we committed about $450 million in preliminary commitments for aircraft support; none of that was used, and that is largely because of the fact that the rates have gone below the new aircraft consensus and the aircraft suppliers and lenders are prepared to do this in the open market, some with, some without our guarantee. As long as the interest rates maintain that configuration, we don't think we are going to be required to do much aircraft financing.

There is always the odd deal in a country that comes along that I think we have to be sensitive to, but again, trying to be conservative, our best judgment is that we are not going to have to do any aircraft financing in 1987 with our direct lending.

NUCLEAR POWER PLANTS

Nor does it include, I may add, any factor for nuclear power plants going forward. Again, we have one nuclear power plant case in-house. Our best judgment is that the actual authorization will not be needed during 1987. There is a long period during which the bids are submitted and evaluated, therefore, we do not think that an authorization will be required from us in 1987. We could be wrong. The programs could go faster; we could be requested to authorize some of that case in 1987.

DIRECT LENDING FOR SECTION 1912 CASES AND AIRCRAFT

The estimate does not include any number for direct lending for aircraft. In the ANA case, we don't anticipate at this point there will be a direct credit, but again, a commitment is out there should they choose to use it. Nor does the estimate include a provision for lending in section 1912 cases. I may add just parenthetically, this category could well be a sleeper for us. We approved, at the Board meeting this morning, a case where we are combating predatory financing practices from Brazil. We were able to turn that around.

The Treasury Department has certified under 1912 that this was, indeed, the kind of case which we should look out for, and we were able to come out and give a commitment for the American suppliers within 48 hours of that certification. The principal supplier under the Exim financing is in Pennsylvania with another part being done out of Wisconsin. But what we don't know is how many more of these are lurking under the surface of the water; we just can't tell. We have committed with the Treasury to look into this aggressively, because we are concerned that there may well be others of these, and it would certainly impact any lending authority that we might have.

FACTORS INCREASING DEMAND

In summary then, the lower oil prices and the lower interest rates, we expect, will provide increased demand. We will see, I think, increased demand, as well, from the declining dollar. It hit an all time low, as you recall, of 174 yen to the dollar, which is half what it was when I lived in Japan, and we are beginning to hear the squeaks of some of our Japanese suppliers. Given the time lag between preliminary commitments and authorization, we believe that the number that we have given you is about the best judgment we can come up with.

Also, I might add, assuming we are to receive the war chest program, our batting average, we would hope, would be a little better than perhaps in the past. I don't know, other than what I have said, Mr. Chairman, that there is much I can add, if anything, to my prepared testimony. We have looked at the development priorities of these various countries, as I mentioned earlier. There continue to be areas like electric power, telecommunications, transportation and energy resources. We think those will go ahead as they must for the development of programs in many of these countries, and we believe that it is likely that we will be called upon to do more than perhaps we have in the last few years.

With that, I would be happy to answer any questions you might have.

[The statement of Mr. Bohn follows:]

PREPARED STATEMENT OF JOHN A. BOHN, JR.
FIRST VICE PRESIDENT AND VICE CHAIRMAN
EXPORT-IMPORT BANK OF THE UN'TED STATES

Mr. Chairman and Members of the Subcommittee:

It is a pleasure for me to appear before you today to present Eximbank's budget request for fiscal year 1987.

Since its creation in 1934, the Export-Import Bank has supported more than $180 billion in U.S. export sales, helped sustain American jobs and contributed to the benefits that international trade brings to both buyers and sellers. Eximbank's purpose has remained the same since its beginning -- to help finance U.S. exports -- but the Bank's emphasis has changed many times as needs have changed.

Today, Eximbank's activities are changing once again, as part of President Reagan's program to address our international trade deficit. The President's trade policy is based on keeping international markets open on a freely competitive basis. Eximbank has performed an important role in leveling the playing field in international trade. The President, in his budget and his legislative requests, has made it clear that he wants us to continue our role in combatting unfair trade practices by foreign competitors and keeping markets open for American exporters.

Eximbank helps boost American exports in three ways. We assist American companies, which are encountering foreign subsidized competition, by providing competitive financing for their export sales. We help private lenders finance export sales by assuming repayment risks which the private sector cannot reasonably be expected to assume. And, with the Treasury Department, we negotiate with other members of the Organization for Economic Cooperation and Development -- the OECD -- to reduce unfair export credit subsidies.

As you know, the U.S. Government is pressing our OECD counterparts to raise the level of the minimum grant element in tied-aid credits from 25 percent up to 50 percent. At the President's direction, Eximbank last year began an aggressive campaign of targeted mixed credit action directed against those countries that have been impeding these negotiations.

To further our negotiations, the President has requested the establishment of a new "Fair Export Financing Program" to be administered by the Treasury Department. With a $300 million "war chest" of grant money to combine with Eximbank's regular export financing, this program could support up to $1 billion in U.S. exports. It should provide a firm push to move our OECD counterparts back to the negotiating table. We urge you to support this request.

The President has also requested legislation to extend Eximbank's Charter through fiscal year 1991 and to provide authority for a new Eximbank interest rate matching program.

FY 1987 Budget Request

The Export-Import Bank's budget request for fiscal year 1987 consists of $12 billion for guarantees and insurance, including $1.8 billion earmarked for the new interest matching (I-Match II) program. We are also requesting $19.175 million for administrative expenses.

The I-Match II program that we are proposing as a replacement for our direct lending is an improved version of the program proposed a year ago. The program is designed to make major budgetary savings. At the same time it will increase opportunities and incentives for private commercial banks to become more involved in the financing of U.S. exports. It would do this with no loss of competitiveness to U.S. exporters.

Under the enhanced I-Match II program, the private sector would finance fixed-rate export loans at minimum OECD Arrangement interest rates where necessary to meet officially subsidized foreign

competition. The foreign buyers will repay the loans at the OECD interest rates. Eximbank will pay the lending institution any difference between the OECD rate and the competitive market rate.

Since the loans are being made by the private sector and serviced by the private sector, with Eximbank exercising only its guarantee authority, we agree completely with the position taken by the Office of Management and Budget on the scoring of I-Match II. Guarantee authority by definition in the Budget Act is not calculated as budget authority. Scored on this basis, it's estimated that this new program will save $4.6 billion in budget authority and $1.9 billion in outlays over the period 1987 through 1991.

Under the enhanced I-Match II program, a broad section of the financial community has indicated that they will make these loans, with our guarantee. We listened to the concerns that the financial institutions raised last year, and in developing I-Match II we are addressing those concerns. We invited bankers from both the trade finance and the capital market side to give us their views. These ideas have been incorporated in the development of I-Match II.

In addition to working closely with bankers, we sought the advice of a wide range of exporters and incorporated their suggestions as well. I think that we have demonstrated to their satisfaction that I-Match II is technically sound.

The Bank's direct lending program has played an important role, in offering American exporters the below market, fixed-rate medium- and long-term financing that they need to meet officially supported foreign competition. The same support will be available under the I-Match II program.

We are requesting I-Match II authority to support private sector lending at consensus rates of up to $1.8 billion in FY1987. In FY1985 Eximbank direct credits, medium-term credits and small

business credits totaled $660 million. A major reason we used only a small fraction of our total FY1985 authorization was that those exporters who traditionally needed the Eximbank long-term lending were more and more frequently turning to the private sector to finance their foreign sales.

The reason for the shift, I believe, dates back to 1983, when the international arrangement on export credits pegged export credit agency interest rates to market rates, with adjustments every six months. Interest rates turned down sharply in FY1985, so for most of the months of the year, market rates were actually well below the consensus rates, which are set in January and July, and remain unchanged for six months.

The more favorable market rates help explain the results of an analysis we did of the $4.1 billion in orders awarded by foreign buyers during FY1985, where Eximbank had offered direct credits to U.S. exporters.

Of this total American companies captured 51% of the business, valued at $2.1 billion. That batting average is in itself amazing considering the high value of the dollar and other factors impeding U.S. exports during this period. But even more surprising is the fact that of those orders, $1.8 billion, or 85%, were financed in the private sector. Some were supported with the Eximbank financial guarantee, but without Eximbank lending, even though we had offered OECD minimum rate financing.

In each case where the U.S. exporter loses an order for which an Eximbank offer had been extended, we ask them why they lost. It is true that some exporters may not get an order because we won't extend credit to certain customers or in certain countries, either because we are precluded by law, or we cannot find reasonable assurance of repayment as required by law. But in all the cases where we did have an outstanding offer, no orders were lost because Eximbank was not competitive with other export credit agencies'

standard financing. The lost business was attributed to price and other commercial considerations, or foreign mixed credits.

Eximbank is working steadily to improve its programs to make them more accessible. At the same time the dollar is dropping, making our exporters more competitive in world markets. So we expect to see an increase in demand for all our programs.

We are promoting our programs in many ways, with both exporters and banks. The banks are very important to us, because we rely on them to bring applications to us in our medium-term lending and guarantee programs and our Working Capital Guarantee Program.

In the Working Capital Guarantee Program we took a very significant step by extending delegated authority to banks nationwide. This allows qualified banks to commit Eximbank's guarantee on working capital loans to small businesses by accepting a risk participation of 15%. The concept of delegated authority in this relatively new program was first tried out in our Four-State Test Marketing program.

We expect this will introduce many more small banks to Eximbank and its programs. As you know, there are some 14,000 banks in this country, but few of them have shown any interest in export financing. They are generally unwilling to accept foreign risk. They don't have the requisite international expertise that is currently the province of the major money center banks and large regional banks. But small banks do make working capital loans to small businesses in their communities, and where these are export related, we are willing to assume the lion's share of the risk. The next step is for them to insure the payment of export receivables through our agent, the Foreign Credit Insurance Association. And as they offer export related services, they'll begin to attract new customers. Here's an example of how it's really working. "Eximbank

helps firm jostle the giants," reads the front-page headline in the Aberdeen, Washington World. The story is about an Eximbank guaranteed $750,000 working capital loan that the Bank of Gray's Harbor extended to T. J. Spradlin, Inc. Spradlin is a timber firm employing around 100 people.

Stories like this -- real examples of how Eximbank is helping small banks and small businesses around the nation -- serve as vital encouragement for others to approach us. In our efforts to bring in more small banks we have written feature articles for regional banking publications, such as Texas Banking, Western Banker, The Southern Banker, and Illinois Banker. These articles all have the same general theme as the cover story in the December 1985 edition of Independent Banker: "How Can Eximbank Help Small Banks?" Independent Banker goes to the 11,000 smallest banks in the country, a territory we are actively marketing.

Since our marketing division was formed early in FY1985, members of its staff have called on 233 banks in 20 cities, explaining to individual banks how they can participate in our programs. They've held field seminars in seven cities, attended by 425 bankers from 209 banks. They have held 12 intensive four-day seminars at Eximbank, which were attended by 238 bankers, representing 115 banks, of which 48 are new to Eximbank. In addition, 181 banks have gone through our certification process to become qualified users of our programs. We refer exporters calling in on the Business Advisory Hotline to certified banks in their area. And these banks advertise this certification in their own marketing programs.

In FY1985, 167 banks used one or more of Eximbank's programs. Ninety-three were involved in our medium-term credit and guarantee programs. In FY1985, for the first time, our medium-term lending authorizations, including our small business credits, were greater than our direct credit lending.

At the end of the first five months of FY1986, medium-term loans accounted for about 65% of our lending activity. By the end of February, we had authorized loans of about $280 million, or around one-quarter of our FY1986 limitation.

Business is picking up. Within the next few weeks exporters will be in to convert some outstanding preliminary commitments into actual authorizations because they have recently won the orders. General Electric has won a $100 million order in China and an $18 million contract in India. Both will require Eximbank financing. The same goes for a $27 million contract Control Data has won from the French in India with our mixed credit financing offer. Island Creek Coal will need our financing for a $107 million order they've won in China.

All these orders we now consider to be 100 percent certainties. In forecasting demand for our present direct credit program, we do a running probability analysis on all the preliminary commitments we have outstanding. Right now we have about $5 billion in outstanding preliminary commitments; that is, offers to finance projects and products if the American supplier gets the business. In consultation with the U.S. exporter, we estimate the chance of a U.S. supplier getting the order, and the chances of the order being placed in the current year, and in the next fiscal year. We also try to determine whether it will require a loan, or can proceed with a financial guarantee. We are constantly reviewing and updating these estimates.

For FY1986 we have already authorized Direct Credits of $99 million, and our projected demand for the rest of the year is $772 million. This figure includes $297 million for orders already received by the American supplier, but where the loan has still to be authorized. This projection would put direct credit demand at about $870 million in FY1986. We estimate our Medium-Term Credit Program and Small Business Credit Program will use around $360 million in

budget authority during the year. These are smaller orders, and our projection is based on historical experience.

This suggests a total credit demand of about $1.23 billion for the current year, which exceeds our present limitation of $1.062 billion, and means we would have to accommodate the excess out of our FY1987 budget.

Our probability analysis of specific, identifiable FY1987 business, at this point, over a year and a half away from the end of FY1987, shows long-term credit demand for specific projects known at this time of $416 million. Combined with the projected medium-term demand and the carry over business, this brings us to about $1 billion already, before taking into account new long-term business that will develop over the next 18 months. Adding this element of demand, we believe demand will total $1.8 billion for Arrangement rate credit support for FY1987.

These estimates have been prepared on a very conservative basis. They assume no direct lending or I-Match support will be needed to finance aircraft sales in either FY1986 or FY1987. They do not factor in the possibility of nuclear power plants going forward in either year.

In 1987, lower oil prices and lower interest rates are expected to result in increased demand worldwide. We will continue to see the effect of the increased competitiveness on the part of U.S. exporters resulting from increased efficiency, cost reductions, and the weakening of the U.S. dollar. Given a 12-18 month lag for exchange rate fluctuations to affect export orders, the accelerated fall in the dollar should result in higher U.S. win ratios in FY1987. We would also expect a higher win ratio to result from mixed credit offers made in conjunction with the "war chest" program.

Although many countries in Africa, Latin America and the Middle East are suffering from debt crisis and slow economic growth,

we see stronger demand emerging in FY1987 and beyond in countries which are key markets for U.S. exporters. In Asia, China, India, Korea and Taiwan are planning growth rates in the 5% range and U.S. exporters are targeting these markets which still rely on export credits at OECD rates.

Development priorities remain high in these key markets in such areas as electric power, telecommunications, transportation (locomotives and aircraft) and development of their own energy resources of coal, gas and oil. U.S. exporters are targeting these sectors and will need Eximbank support to offset the credit subsidies offered by other governments.

Insurance and Guarantees are becoming increasingly important for Eximbank. In FY1985, we used $7.85 billion of insurance and guarantee authority to support $8.7 billion in U.S. exports.

For 1987 we are requesting a $12 billion authorization limit, of which $1.8 billion will be earmarked to guarantee the I-Match II commercial lending.

The administrative expense budget of the Bank provides funding for personnel, support services, and operating expenses. For FY1987, the Bank is requesting $19,175,000 for administrative expenses which will support a full-time equivalent personnel level of 339. This is the same personnel level as FY1986 and 82, or 20% less than 1980.

The requested level of $19,175,000 is an increase of $818,000 over the FY1986 limitation of $18,357,000. However, $400,000 of this increase is Eximbank's share of a one time charge for the installation by GSA of a new phone system in the building. Without this one time charge, the increase in administrative expenses in FY1987 over FY1986 is only $418,000, or a little more than 2%.

Of the $19,175,000 requested, $13,814,300 (72%) is for compensation and benefits and $1,793,100 (9%) is for rent of office

space. Travel is budgeted at $400,000, an amount that is less than actual travel expenses in FY1985. $75,000 is budgeted for marketing assistance which will be used to help reach new exporters, especially small businesses. As I mentioned, $400,000 is for the one time charge for the telephone installation. $16,000 is for official reception and representation expense. The remaining balance of $2,676,600 is for necessary operating expenses such as equipment rental, purchase of supplies, printing and reproduction, and other service contracts. I should also note that we are devoting funds from many categories to install a real-time computerized management information system. This will upgrade the quality and timeliness of information vital to making management decisions.

In conclusion, I believe that Eximbank now has a broad range of competitive export financing programs to help boost U.S. exports. The Administration has proposed new legislation to meet the new challenges that lie ahead -- extending the Bank's charter, providing authority for a new Eximbank interest matching program, and creating a new Treasury Department "Fair Export Financing Program" to combat foreign tied-aid credits. We have requested a budget that will enable us to provide the support our exporters need, with more private sector participation and less of a draw on Government resources.

Thank you very much. I will be pleased to answer any questions.

PREPARED STATEMENT

Senator KASTEN. Mr. Bohn, thank you.

It is my understanding, Senator D'Amato, that you have a brief statement you would like to present at this time?

Senator D'AMATO. That is correct, Mr. Chairman.

In the interest of time, let me simply say that not only is my State very much interested in supporting this program, but I think as a nation, we simply cannot afford to cut back on our commitment to Exim, simply because we have the glimmer of some hope. Therefore, Mr. Chairman, let me say that, although I won't be able to stay with you for the rest of the hearing, I am certainly interested.

I have some questions I would like to submit for the record, as well as my prepared statement as if it was read in its entirety.

Senator KASTEN. Without objection, so ordered.

Senator D'AMATO. Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Mr. Chairman, since its creation in 1934, Exim Bank has assisted more than $180 billion in U.S. exports through various loan, guarantee, and insurance programs. The Bank's programs have increased export opportunities for American business, provided American exporters with financing that is competitive in the world market, and reduced the risks associated with the export business. Congress has affirmed that the Bank's primary function is to provide competitive financing to U.S. exporters, whether they be large or small businessmen.

My State of New York benefits tremendously from Exim Bank's programs. Over the last 4 years, New York exporters sold goods valued at approximately $5 billion:

Fiscal year	Items	Contract value	Exim support
1982	388	$1,600,000,000	$1,000,000,000
1983	233	918,000,000	718,000,000
1984	231	943,000,000	754,000,000
1985	175	1,360,000,000	1,200,000,000

In the fiscal year 1987 budget, the administration once again has proposed replacing the Direct Loan Program with an interest rate subsidy payment program called I-Match II. This proposal met with much criticism last year by financial institutions. During the last 12 months, however, the banks and exporters have worked closely with Exim to establish a practicable program. Under I-Match II, Exim no longer will extend direct loans by borrowing from the Treasury. Instead, private lenders will make export loans at the Organization for Economic Cooperation and Development [OECD] arrangement rates and, in return, will receive any difference between the arrangement rate and the market rate, and an unconditional guarantee of repayment against all political and commercial risks.

The Export-Import Bank has been invaluable to New York exporters; it must continue to be a vital player in promoting and creating new opportunities for American exports. Today, when our trade deficit is approaching $150 billion, we must adopt policies and programs that enhance this Nation's export potential.

Thank you, Mr. Chairman.

I-MATCH PROGRAM

Senator KASTEN. Mr. Bohn, if Congress should decide not to go along with the administration, my sense is that both in authorizing and in appropriating committees, there are a lot of questions about the so-called I-Match II Program, given the fact that you expressed in your testimony a demand for export financing which you agree should be met, will you then seek a budget request for a direct loan program?

Mr. BOHN. Well, Mr. Chairman, in our discussion of the submission by the administration, we have tried to concentrate on the demand for arrangement rate credit. We recognize that this is a period of intense budgetary constraint. We are all concerned about reducing the deficit, and our proposal, the I-Match Program, was designed to deal with that and provide flexibility in the process so that we would have a better chance of trying to meet the exporter's needs.

Senator KASTEN. And to shut down the Eximbank. I mean, you tried different ways of funding, and now this is the third way. I guess what I am saying to you is, how far down the line? Do we have to have both authorizing and appropriations committees reject this program before we work together to find a common ground? Basically, what is happening here, as you know, is that all of these programs come under the 150 account. There are important programs for the entire world that are going to be put in jeopardy because of the lack of funding. What that is going to mean is that security assistance programs might not be funded; it might put pressure on a whole number of programs which are of key importance, not only to the Treasury Department but the Department of State.

Mr. BOHN. Mr. Chairman, the only response I can give to that is that we have tried to focus on what we see to be the demand. I recognize that the program that we have suggested has not been received favorably in a number of quarters. We think, for what it is worth, that the CBO interpretation of the budget treatment is incorrect. Be that as it may, that is not our decision. All I can say is that we have tried to focus on demand. We think it is a very important area of our Agency, as you referred to earlier, and we have tried to provide as much information and as good information concerning the demand as possible.

Really, that is all the Eximbank can do.

ALLOCATION OF RESOURCES

Senator KASTEN. When you talk about demand, are you, as your predecessor did in testimony before us—at least he implied that somehow they were doing country-by-country or area-by-area quotas; in other words, we just did a major financing of a phone system for XYZ country, therefore, they ought to be second or third in line on aircraft; that we had some kind of an informal set of quotas.

Is that your policy, as well, or are you simply going to recognize the role of the Eximbank as simply to meet or beat financing of foreign competitors?

Mr. BOHN. I was unaware that this was the policy if, in fact, it was. It is certainly my policy to meet competition when it comes in.

One of the frustrations that we have, and I think is shared by the exporting community, is that we are essentially reacting as a passive sort of an organization. We try to take what comes in. Whether two or three cases come in from the same country or same sector is really an irrelevant consideration for us.

COMPETITIVE FINANCING

Senator KASTEN. I am pleased with that answer.

One other question came up occasionally in testimony, and also particularly in meetings with groups that are the users of the Eximbank, exporters of this country. It is important that the Eximbank focus on meeting competitive financing to meet or to beat predatory financing on the part of our overseas competitors.

Occasionally, it seems that we, and also the exporters, have been at loggerheads with the Eximbank, in that there is a tendency or there was a tendency of the Bank to be more concerned—at one point someone said we have got to operate at least on a break-even or profit basis. Some other people were talking about the importance of the Bank being self-sustaining as opposed to being competitive.

You are now the Acting Chairman and Acting President. What is your view of the Bank's mandate, to the side of being self-sustaining or the side of stepping up and matching competition?

Mr. BOHN. I think, Mr. Chairman, really both are mandates. I probably come down on the side of meeting competition, but I have to say that with due regard, I hope, for the need to deal with the financial condition of the Bank.

One of our major priorities and one of my major priorities in the next few months will be to try to put together a proposal for the capital structure of the Bank. Our preference is to deal with the capitalization issue, which is the other side of the questions you have asked, directly. We don't have to make money; we don't have to generate a surplus, and indeed, the GAO has stated that they believe that in a true accounting sense, probably, our financial statements are misleading.

Our basic function as an agency is to support U.S. exports that are competing with exports supported by government agencies of some of our trading partners. That is the Bank's purpose.

We do, however, have to have cognizance of and not only pay attention to our financial statements, but also to ensure that the organization is run as efficiently as possible. But I don't think there is any doubt that we are principally there to support U.S. exporters in competition with others.

ADMINISTRATIVE EXPENSES

Senator KASTEN. Let me just switch to one other question, and then I will yield to the Senator from Arizona.

You are asking in your justification material and your statement for an increase of $818,000 in administrative expenses. Am I understanding you are talking about roughly $400,000 for a new phone system? That means there is $418,000 that is over and above that. What is that $418,000 going to be used for, particularly because, if my memory is correct, we had a difficult time fully funding your request for administrative expenses last year.

Mr. BOHN. Much of that, Senator, is simply increases over what our costs were last year for most categories of expenses. But we have addressed a couple of issues in our request that I think are important; certainly, the phones have been one.

Senator KASTEN. I won't argue with the phone system, and I will assume it costs almost a half a million dollars. I don't know how much a $400,000 phone system is going to do, and I am not an expert. Let's simply worry about $418,000 in expenses over and above the phone systems.

Mr. BOHN. We have looked at, very carefully, our management information system, and in our judgment, this is an area of substantial weakness in the Bank. From an accounting point of view, it runs very well, but from the ability to be responsive to make quality decisions in terms of countries, in terms of management exposure, we think it is a situation which is critical.

We have, therefore, undertaken a major upgrade, if you like, of the whole management information system; those expenses are a pretty fair chunk of the increase. I can't give you an exact number offhand. But that is one of the major things that we are aiming for. That will require some increase in the numbers of people for this function at a higher grade, perhaps, than some of the people we have now. Whatever that number comes out to be, that is a major item for us.

Most of the remaining costs, Mr. Chairman, are clerical expenses. We believe the Bank has to move into a different mode. In conjunction with our MIS system, we need to train the staff to use it so that it becomes more effective. We also have related costs of production expenses and that kind of thing.

But the principal elements of that are MIS and training related.

Senator KASTEN. We ask that you get back to us, as I understand that you don't have all this information at your fingertips. There was a question about expenses in last year's budget. If I remember right, we funded basically the request, maybe a slight amount under it, consistent with what happened with other programs. This is just going the opposite way——

Mr. BOHN. I understand.

Senator KASTEN [continuing]. From the way Gramm-Rudman was going.

I have to leave to vote in the Budget Committee, and I am going to try to return. But I will right now recognize the Senator from Arizona, Senator DeConcini.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES

Administrative Expense
FY 86 - FY 87

	FY 86 Estimate	FY 87 Estimate	Increase/(Decrease) FY 87 vs. FY 86
Compensation & Benefits	$13,650,000	$13,814,300	$164,300 1/
Travel	400,000	400,000	-0-
Transportation of Things	30,000	30,000	-0-
Rent of Building	1,906,400	1,793,100	(113,300)
Rent of Equipment	578,200	704,200	126,000 2/
Telephone	402,100	450,000	47,900
Postage & Telegrams	245,100	298,200	53,100
Printing & Reproduction	165,000	195,400	30,400
Digital Phone Installation	-0-	400,000	400,000 3/
Service Contracts	768,900	748,100	(20,800)
Subscriptions	75,000	90,000	15,000
Supplies, Materials, & Misc. Expenses	136,300	251,700	115,400 4/
	$18,357,000	$19,175,000	$818,000

1/ Increase due to normal yearly step increases plus additional contributions required by FICA.

2/ Additional EDP hardware requirements due to continued MIS effort directed towards better data gathering capabilities.

3/ One time charge for Exim's share of costs for new phone system being installed in the Lafayette Building.

4/ Because of budget restrictions in FY 86, funds allocated for these items were severely cut. Actual FY 85 expenses totaled over $245,000. FY 87 budgeted amount more accurately reflects typical yearly expenditures for these items.

I-MATCH PROGRAM

Senator DECONCINI [presiding]. Thank you, Mr. Chairman.

Mr. Bohn, the I-Match Program seems, to this Senator, to be a costly program, and it is going to be an actual expenditure on behalf of the U.S. Government, unless I am wrong. What is the fundamental reason for continued emphasis on such a program?

Mr. BOHN. Senator, I think there is a longer term reason to continue the support of the I-Match Program, and I can't prove any of what I am about to say, but I believe it is correct.

The major problem that we have at the Export-Import Bank is access by the the small- and medium-sized supplier to the Eximbank program. Quite honestly, there is a trend in the banking system which started back when I was there and has continued but since that time, that more and more of the large banks simply are not terribly interested in doing the smaller kinds of export transactions.

What we are trying to do with the I-Match Program and part of the reason it was proposed and constructed as it was and in cooperation with the banks was an attempt to bring the banking system back into the export process.

They are very concerned, as they should be, about country exposure; they are very concerned about the cost, but the banking system is changing. When I ran a trade finance bank years ago, it was still all right to have a high service content in order to do the finance business that you did.

The trade finance business is a high-overhead kind of business. When you superimpose on that the need to comply with a government program, the cost goes up.

We have two alternatives: We can reduce the risk, which we do by our guarantee and by our insurance program; we can provide the funds; or as a third alternative, we can try to reduce the paperwork. Our hope is through the I-Match Program, we will bring the banks back in. We will have an enhanced guarantee. We will have a funding mechanism which they are enthusiastic about. It does provide a reasonable spread but not a great profit for them. I hope that over time, the additional costs that we are talking about in the I-Match is a reasonable price to pay to get the banks back in.

Many exporters I talk to who come in are having trouble accessing Exim's Medium-Term Program. We have to rely on the distribution system of the banks, and this is one method that we hope will bring them back into the trade finance business.

COST OF I-MATCH

Senator DECONCINI. Will this program still cost approximately $42 million?

Mr. BOHN. The increment, we estimate, is somewhere around there. And then the question is whether that is a reasonable price to bring the banking system back in. I think that is a real issue.

Senator DECONCINI. What do we get for buying a banking system back in? More loans?

Mr. BOHN. I think the most important thing we get is that the banks, particularly the medium-sized banks and smaller banks, will have another way in which they can help their customer. We found that the very large money center banks are not terribly interested in servicing the export financing needs of a small- or medium-sized company.

If we can engage the capital markets side of the Bank, that is to say, if we can create new instruments and new techniques whereby we don't just have the trade finance people in the trenches trying to do business but we make those instruments transferable, then we meet another need of the banking community, namely liquidity. By marrying those two, we think from our conversations with the banking community that they would be far more interested in doing business with the small- or medium-sized company. The $42 million is the cost.

Senator DECONCINI. You obviously think it is a good investment, then?

Mr. BOHN. I think it is a good investment, yes, I do.

Senator DECONCINI. Even in the budget crunch we are in today?

Mr. BOHN. It is a difficult investment because the impact, if we are right, won't be felt for 2 or 3 years.

TERMS OF INVESTMENT

Senator DECONCINI. Will that investment be an annualized investment?

Mr. BOHN. I would guess so. That is my guess.

Senator DECONCINI. When will that stop?

Mr. BOHN. There are ways this might evolve. The first way is that as we get into risk sharing, my belief is that the banks will begin to come in. They will begin to come in on their own and build up an experience base. The trade finance business is a tricky business, particularly for a small bank, trying to assess the risk of a foreign borrower, even a sovereign borrower. There are a lot of banks that will now tell you that.

Our hope is that as they build up experience, they can begin to do more on their own. I can't guarantee it.

Senator DECONCINI. Yes, I understand. I don't have any idea when we can see this lessen. Will it be 10 years if we continue down the I-Match Program?

Mr. BOHN. My sense is if it doesn't work in 3 years, it won't work.

Senator DECONCINI. So we will refund this I-Match Program. By 1989 we ought to know whether or not it is going to continue to cost or we will abandon it; is that right?

Mr. BOHN. If it works out with the banks, despite their discouragement with small transactions, despite the capital problems of the banks, despite the risks, if we have not brought the banking system back in to support that segment of the export finance system, then it won't have worked.

Senator DECONCINI. Then there would be no justification to continue the program?

Mr. BOHN. Not if the scoring continues to be as the CBO suggests.

Senator DECONCINI. If we have them back in. It would still cost roughly that much a year, $45 million to continue the program, or once they come back in, does the program then diminish the amount of——

Mr. BOHN. My expectation would be, Senator, that at the end of that period the banks—since they don't have any particular reason to want to pay fees to us or anybody else—with their increased level of expertise and with, hopefully, the passing of or at least the subsiding of the debt crisis we are in now, banks will do this on their own. Eximbank won't have to do as much.

If the banking system is taking over, then we would like to get out of the business.

LOAN LOSS RESERVES

Senator DECONCINI. I understand the GAO has rendered an adverse opinion on your financial statement for 1983 and 1984. Do you know what that opinion amounts to, or have you had a chance to review it? Why haven't you established a loan service required by the general accounting principles and recommendations in the GAO report, or have you?

Mr. BOHN. No, we have not, Senator, and let me try to explain the reasons for that.

The GAO takes the position, as I understand it, that the Export-Import Bank should be treated in the same way as a private financial institution, and therefore, we should have a loan loss reserve which represents anticipated losses. As you have seen in their report, they provide some very large numbers as to what that would do to our capital structures.

I think one has to back up a little bit and look at the reasons for the general accounting principles that they would have applied to the Export-Import Bank. The reason that one is concerned about capital in the private markets is that you have both depositors and shareholders as well as regulators. They are concerned about the position of the banks' debt and capital. The capital is essentially a cushion. It is information that a prudent investor or prudent depositor should look at.

None of those reasons apply to the Export-Import Bank. We don't depend on our capital to borrow; we don't depend on our capital really, for our export support activities. So whereas the GAO's position may be superficially consistent, our concern is that there is no reason for it to apply.

PAYMENT OF LOSSES

Senator DECONCINI. Wait a minute. Isn't there a reason to apply so you protect the Government and the Treasury without having to come up with losses that occur? Isn't that how you pay them? You come to us for the money?

Mr. BOHN. That is how we would pay them, but the capital position of the Bank is essentially irrelevant to that. We simply would pay the

losses by going to the Treasury for the funds. So capital does not limit the protection.

Senator DECONCINI. There wouldn't be any loss reserve set up or capital available for that?

Mr. BOHN. No. I don't want to overstate the relevance of our financial statements, but what I do want to concentrate on is the following: They are very important management tools. They tell you as a manager how well things are going in financial terms.

Senator DECONCINI. It is a tool.

Mr. BOHN. It is a very important management tool.

Senator DECONCINI. You don't plan on implementing that?

Mr. BOHN. The GAO?

Senator DECONCINI. The GAO recommendation?

Mr. BOHN. No, we don't, partly because of the reasons behind their recommendation; whereas it makes sense for the private sector, it would make no sense for us.

But also there is a disadvantage for the Bank in estimating such a reserve, and that is that we would then get into the position of establishing when a country was probably not going to ever pay its debts and that would have foreign policy implications. We do make judgments on country creditworthiness internally. However, for loan loss purposes we take the position that our entire reserve and capital structure is available for losses to debtor nations, and that is the case.

We think that is a down side, and frankly, Senator, we don't see any up side.

DIRECT LOAN DEMAND

Senator DECONCINI. Going back to that I-Match question, are you going to be making any direct loans this year?

Mr. BOHN. In 1986?

Senator DECONCINI. Yes.

Mr. BOHN. We have already authorized about $260 million.

Senator DECONCINI. You have?

Mr. BOHN. We expect another $700.

Senator DECONCINI. In 1987, would you expect to make any direct loans?

Mr. BOHN. We believe that we will have demand; we anticipate supporting fixed arrangement rate loans at a $1.8 billion level.

Senator DECONCINI. Even if the I-Match program is implemented?

Mr. BOHN. If the I-Match?

Senator DECONCINI. Yes.

Mr. BOHN. Well, if the I-Match—oh I'm sorry, when people talk about direct loans——

Senator DECONCINI. I am sorry. I meant——

Mr. BOHN. It is sort of confusing. Direct loans to me——

Senator DECONCINI. Distinguishing that from the I-Match Program as a direct borrowing service, if the I-Match was approved for 1987, would you expect any direct loan program to continue along with that?

Mr. BOHN. The request of the administration is that there would be no direct loan program.

Senator DECONCINI. And you do offer that, I imagine?

Mr. BOHN. I think the issue really boils down to whether we have the resources to meet the demand.

Senator DECONCINI. One way or the other.

Mr. BOHN. Whatever it comes out to be. I am mostly concerned about meeting the needs of the exporters. Because I don't see competition going down. I think it is going to increase.

Senator DECONCINI. Thank you. I have no further questions.

Senator Specter, I am going to leave you and designate you through the chairman as the chairman.

Senator SPECTER [chairing]. Do you have that authority, Senator DeConcini?

Senator DECONCINI. I am not sure I do. He said I could handle the meeting until he returned, but I am going to hand the gavel over to you.

Senator SPECTER. Mr. Deputy Chairman, I thank you.

Just a question or two, Mr. Bohn.

LOAN TO ALLIS-CHALMERS

Is the approach set forth in your news release today on the loan to the buyer, the Allis-Chalmers hydro equipment, precedented in any way?

Mr. BOHN. I guess the answer to that, Senator, is that we don't know. This is one of those situations that came up very quickly. We have incomplete data.

Senator SPECTER. I think it is a great thing that you are doing. Treasury Secretary Baker was before this subcommittee about 2 weeks ago, and I raised with him the serious problems of International Monetary Fund loans to Brazil which were coming back and subsidizing steel; the problems we were having in Colombia on coal. So that when I noted this loan, also to a Pennsylvania operation, in western Pennsylvania from the Pennsylvania Squire, I brought it to heart. But there is no precedent for it, to your knowledge?

Mr. BOHN. This is the first one, as I understand it, Senator. It causes us some concern for the following reasons: We are as outraged as you and others are about these kinds of practices. The issue before the Eximbank Board, once the Secretary of the Treasury has certified, is really the assurance of the repayment.

Senator SPECTER. How do you work out the basic fundamentals of its not being a foreign loan, a loan for a foreign buyer? Is there no requirement that Exim make these arrangements obviously where there is a foreign purchaser?

Mr. BOHN. No; we can do just what we have done there.

Senator SPECTER. I concluded you could. [Laughter.]

Mr. BOHN. It doesn't have to be.

Senator SPECTER. It does not have to be, but this is the first one you have done?

Mr. BOHN. This is the first one I have done.

Senator SPECTER. I don't have any other questions about it. I don't want to explore it further.

Mr. BOHN. Let me make one point, if I might, in response. We don't know how many of these kinds of transactions are out there. And our concern is whether or not——

Senator SPECTER. You mean the potential for similar transactions?

Mr. BOHN. We are concerned there may be potential for many similar types of transactions, and we are concerned whether or not the Eximbank, by itself, is the right way the Government should respond. We don't know quite what the answer is at this point. But certainly in this case, it is the kind of thing we are trying to fight in the OECD.

Senator SPECTER. There is a different aspect. Dennis Carney, who headed up Wheeling Pittsburgh, complained bitterly. I had taken this up with a number of administration officials on the ability, again of Brazil, to get loans from the International Monetary Fund on terms far more preferable than he could get heading up the U.S. Steel Co., which had enormous problems.

It seems as a matter of fundamental justice to make the same deals available to a troubled U.S. steel company as is available to one in a foreign country like Brazil. That is a little different structural arrangement than this one, but it has a lot of analogues.

Well, I commend you for doing it. I think it is a great idea, and it will give us an area for more inventive thinking. [Laughter.]

I do have some questions which I am going to submit to you for the record, but that will conclude the hearing.

[The following questions were not asked at the hearing, but were submitted to the Bank for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

SENATOR KASTEN: You state in your justification material that in FY 1985, the Eximbank rescheduled loans to sixteen countries, totalling $367.4 million in principal and $134 million in interest.

First of all, can you tell us what countries were involved in these rescheduled loans?

Secondly, what is your projection of reschedulings for FY 1986?

MR. BOHN: The countries involved in the reschedulings were as follows:

Rescheduled Loans
FY 1985
($ Thousands)

Country	Amount
Brazil	$282,064
Costa Rica	3
Ivory Coast	12,315
Jamaica	17,859
Liberia	421
Mauritania	5,167
Mexico	21,588
Morocco	4,798
Niger	1,194
Peru	63
Philippines	24,225
Sierra Leone	196
Sudan	5,852
Yugoslavia	89,842
Zaire	21,016
Zambia	14,769
	$501,372

For FY 1986, reschedulings could total up to $700 million.

SENATOR KASTEN: Overall, does the Bank experience large collectibility problems?

If so, is it the General Accounting Office's position that the Bank's Financial Statements do not fully reflect these collectibility problems, and, therefore, the full cost of your operations is not accurately presented?

Shouldn't you recognize these problems and reflect them in your Financial Statements?

MR. BOHN: The Bank does have some collectibility problems and they are disclosed in the Footnotes to the Bank's Financial Statements. The GAO has taken the position that some of the Bank's soverign risk loans will not be repaid and the Bank should recognize this in its financial statements. The Bank disagrees with this assessment and believes that these soverign risk loans will be repaid. The Bank feels that its financial statements do fairly disclose its status and the results of its operations.

SENATOR KASTEN: Unlike last year's I-MATCH plan, the current Administration's proposal is regarded by exporters and bankers as workable. Still, many in Congress find a problem with I-MATCH in that it is a subsidy to private banks.

Is there any worthy public policy objective achieved in authorizing an I-MATCH, even in its revised form?

MR. BOHN: We believe that the I-MATCH program is an effective way of providing support for U.S. exports. It is important to provide Exim with the maximum flexibility to respond to the financing needs of U.S. exporters in the rapidly shifting international financial arena. The I-MATCH Program has been designed in consultation with the banking and exporting communities and new features such as floating rate funding and transferability are specifically designed to encourage a wider participation by commercial banks in the financing of exports of small and medium-sized companies. We believe that these are important public policy objectives as contained in the Bank's Charter.

SENATOR KASTEN: Mr. Bohn, in order to get a clearer picture of the competing pressures the Eximbank will deal with during fiscal year 1987, I would like to have some idea of trends in demand for both your direct credit programs and your medium term programs.

Since we have had some trouble getting accurate estimates from Eximbank in the past, we need to know how you derive these demand estimates?

MR. BOHN: To estimate future demand for Arrangement rate credits, Eximbank uses two complementary approaches. One is to look at the individual outstanding preliminary commitments and evaluate them in terms of the likelihood both that the transaction will have the contract awarded in the projection time frame and that the U.S. supplier will win the award. This appraoch is a fariy good indicator of activity over the next 6-12 months. The other is to examine trends in macroeconomic factors which tend to impact Eximbank credit authorization levels. This approach provices both an alternative view of the next 12 months and reasonable parameters for likely demand for Eximbank credit in the succeeding 24 months.

At this time, an evaluation of outstadning preliminary commitments indicates that demand will be $1.0 to $1.2 billion in FY 1986. This analysis is complemented by figures generated by a macroeconomic model designed to project demand based on expected trends in U.S capital goods exports and LDC borrowing. Depending on the level of austerity assumed for major Latin American borrowers, this model generates an estimate of demand for FY 1987 ranging from $1.5 billion to $2.1 billion, excluding support for commercial jet aircraft and nuclear power facilities.

SENATOR KASTEN: In addition to the demand you see for these credit programs, are there any kinds of requests for extraordinary support that you can anticipate?

What will be the requirement to meet mixed credit competition?

Does this estimate account for any progress in OECD negotiations on mixed credit support?

Does this estimate assume that mixed credit practices of our trading partners have somewhat abated, stayed the same, or increased?

Finally, do you anticipate that the Bank will be asked to match, under Section 1912 of the Eximbank Charter, predatory financing offered to buyers in the United States by countries with which the U.S. has export credit arrangements?

MR. BOHN: There may be cases under Section 1912 where we will be asked to match foreign subsidized financing from non-OECD countries which are not parties to our Export Credit Arrangements offered on sales in the United States.

SENATOR KASTEN: How many mixed credit applications did Eximblank receive in 1985?

Of those, how many have been successful?

MR. BOHN: In calendar year 1985, seventeen cases were presented to the Board for guidance on providing mixed credits.

Of the seventeen cases where mixed credits were requested in 1985, the United States has won four cases. The total export value of these cases is $108.24 million. In eight of the cases the outcome is still undetermined.

SENATOR KASTEN: I am encouraged by your statement (on pages 10 and 11) that the fiscal year 1986 total direct credit demand is $1.23 billion -- $168 million more than was appropriated for FY 1986, and that you will have to use FY 1987 funds to cover the shortfall.

Considering that the Eximbank has fallen far short of authority in recent years, this represents quite a change.

To what do you attribute this change?

For every $1 billion in export credits, what does this translate to in terms of tax revenue and jobs?

MR. BOHN: The ability of Exim to utilize its $1.1 billion FY 1986 credit allocation is directly related to an increased willingness on the part of several borrowers to reach purchase decisions and finally convert long-standing preliminary commitments to credits. If this tendency reflects an underlying trend among borrowers, Exim should be able to utilize its credit authority in both FYs 1986 and 1987.

Every $1.0 billion in export credits yields about $1.15 billion in exports. Every $1.15 billion in capital goods production in the U.S. economy translates into about 29,000 jobs and some $90 to $100 million in federal tax revenue.

SENATOR KASTEN: Smaller exporters in Wisconsin have complained about their inability to access and use Eximbank programs. This complaint does not issue from my state alone. You have tried to deal with a more aggressive marketing effort, and a four-state (Wisconsin included) marketing program. Your marketing budget is reduced along with your credit resourses.

What needs to be done to correct this problem?

What are you doing presently?

What can be done administratively at no cost to the taxpayers, to provide greater access to your programs?

MR. BOHN: Eximbank needs to expand its distribution channels to reach more businesses, especially the smaller and mid-sized ones. To do this we created our own Marketing Division which now reports to the Senior Vice President directly responsible for the programs of greatest interest to these businesses - especially Working Capital Guarantees and Insurance. We have geared up the FCIA field offices and have trained their officers to market a broader range of Eximbank and FCIA programs.

We need greater participation by commercial banks, our potentially most effective distributors. Accordingly we have improved our training programs for bankers, have created new products in keeping with changes in the market-place, and designed the proposed I-MATCH program so as to bring new banks into trade finance. I-MATCH provides the incentives to the banks to work with their customers in support of American exports.

Beyond this we have developed extensive contacts with the diverse state export authorities, and are devising ways to work together, consistent with the very different authorities that exist from state to state.

The Umbrella Insurance Policy, which allows an independent party to administer FCIA's poilicies, is up and operating, with many companies taking advantage of its ease of use.

In a recent reorganization at Eximbank, we streamlined our organization by putting medium and long term operations together in geographical divisions for "one-stop-shopping," and by aligning the programs most useful to small and mid-sized firms in a single group which has a clear mandate to address precisely the kinds of interest you have expressed.

SENATOR KASTEN: You state (on page 11) that your FY 1986 and FY 1987 estimates do not assume any direct lending or I-MATCH support will be needed to finance aircraft sales or nuclear power plants.

On what basis do you make these assumptions? Are there no negotiations on-going for any of these projects to lead you to believe funding will not be necessary? For instance, you say (on page 12 of your statement) that key markets for U.S. exporters -- Asia, China, India, Korea and Taiwan -- will target transportation as an area of development in FY 1987. How does that jibe with your assumptions?

MR. BOHN: The only major nuclear orders presently under serious negotiation by U.S. vendors are in Egypt, Korea, and Taiwan. The U.S. content of the Egyptian plant is only $300 million; and if the United States wins this order, the credit amount can be handled with the FY 1986-87 authority. Neither one of the Korean

or Taiwanese projects (each with a $750 to $1,000 million U.S. content) is scheduled to require financing before October of 1987.

As for aircraft, the combination of new financing tools (e.g., swaps) and the Aircraft Agreement, which adjusts the minimum interest rate to market rates every two weeks, has virtually precluded the need for Exim credits. In FY 1985, Exim authorized no direct credits for commercial jet aircraft while over $1.0 billion of U. S. aircraft sales which had been offered Exim credit went forward without using the credit offer.

SENATOR KASTEN: If the $300 million in mixed credits is tied into the direct credit program authorization, what operational problems do you see between the Bank and Treasury (which will administer the War Chest)?

MR. BOHN: We are quite confident there will be no operational problems. Our officers and staff work closely with Treasury Department people now, and they send a representative to our Board meetings. Our staff will continue to gather information from the other OECD countries through our long-standing system of information exchange, from our embassies, and of course from the U.S. exporters. The exporters will continue to submit their applications and any additional information to the Eximbank official responsible for the country. We will supply to the Treasury Department the information it will need.

SENATOR KASTEN: Funding constraints aside, can the Administration's I-MATCH plan effectively deal with all of the kinds of requests for support in the variety of cases that come before Eximbank?

Is it not true there is a continuing need for direct credit support from Export-Import Bank?

MR. BOHN: I believe that the I-MATCH II program can effectively deal with the various types of long and medium term requests for assistance in meeting fixed Arrangement rate credit which the Bank is now meeting through the Direct Credit and Medium-Term Credit Programs. If I-MATCH II is approved by the Congress at the Administration's request level, there would not be a continuing need for direct credit.

SENATOR KASTEN: Exim had to operate under the pressures of deficit reduction, as well as the pressure of increased demand.

How will you apportion your limited resources, especially if Congress is unable to authorize and fund a $300 million War Chest for mixed credits?

MR. BOHN: The Bank would have to look very carefully at all requests for assistance, and would probably not be able to do as many "mixed credits" as would be possible if the $300 million War Chest were enacted. If the War Chest were not funded, the resources which would otherwise have come from the $300 million would have to be taken from the Bank's resources, leaving a smaller amount available for non-mixed credit cases. Consequently, the Bank would not be able to do as much in either the mixed credit area or in the Bank's regular business.

SENATOR KASTEN: On page 10 of your statement, you indicated that there exists about $5 billion outstanding in preliminary commitments.

Given this number, is the $1.8 billion requested by the Administration in loan authority sufficient?

Do you expect an export surge in the coming years? And if so, on what do you base this?

MR. BOHN: Since 1980, some 20 to 30 percent of Exim non-aircraft/nuclear preliminary commitments have been converted to credits. Assuming there are still outstanding PCs of $5.0 billion when FY 1987 begins, long-term direct credit conversions would total $1.0 to $1.54 billion. Adding $300 to $500 million of medium-term credits makes the $1.8 billion level look quite adequate.

While the lower dollar may yield a surge in overall U.S. exports, we expect the continuing LDC debt crisis to reduce any increase in LDC demand for Exim credits that the lower dollar may stimulate. That is, since the LDC demand for major capital goods or new industrial projects is expected to remain fairly stagnant for the next couple of years, the lower dollar should have only a modestly positve influence on Exim credit demand.

SENATOR KASTEN: What will be the requirement to meet mixed credit competition?

MR. BOHN: It is not our strategy to meet mixed credit competition, but rather to discourage this practice on the part of other countries by changing the rules to greatly increase the "Grant Element" -- the cost to the lender or donor countries of this use of development aid funds to promote their exports. We will aim at markets -- that is, buyer countries and industry sectors of great importance to those other OECD countries which are delaying progress in the negotiations. We believe that we would have adequate funds for the concessional part of our winning mixed credit offers by blending the $300 million Tied Aid Fund that has been requested by the President with $700 to $900 million of Eximbank loans or guarantees on our usual terms and interest rates or at market rates. Some of our offers will become firm business in the present fiscal year and some in later fiscal years so the requirement for Eximbank funds in fiscal year 1987 for mixed creit purposes can be accommodated in the levels proposed for I-MATCH and our guarantee authority.

SENATOR KASTEN: Does this estimate account for any progress in the OECD negotiations on mixed credit support?

MR. BOHN: No. There have been indications of constructive thinking on the part of our negotiating partners, but these indications do not yet justify any change in our estimate of our need for future funds.

SENATOR KASTEN: Does this estimate assume that mixed credit practices of our trading partners have somewhat abated, stayed the same, or increased?

MR. BOHN: Mixed credit practices have somewhat increased. The result is that each of our trading partners has lost some business that it expected to win. It appears that this development, plus our own more aggressive activity, is beginning to stimulate a broadening consensus that something needs to be done.

SENATOR KASTEN: Finally, do you anticipate that the Bank will be asked to match, under Section 1912 of the Eximbank Charter, predatory financing offered to buyers in the United States by countries with which the U. S. has Export Credit Arrangements?

MR. BOHN: The problem of predatory financing offers to buyers in the United States is caused most often by countries which are not parties to our Export Credit Arrangements. The OECD countries and several of the more advanced developing countries are careful to follow the rules of our Arrangement on export credits which have virtually eliminated subsidized financing into the United States and other so-called "Category I Countries." There may be cases where we will be asked to match such subsidized financing from other non-OECD countries who believe they must provide special help to their exporters in the form of subsidized credit. We believe this type of demand on our funds can be minimized if our matching activities are supplemented by efforts in diplomatic channels and in other ways to convince the subsidizing country that such help to its exporters is unnecessary and unwise.

Questions Submitted by Senator Specter

SENATOR SPECTER: In the FY 1987 budget, the Administration has again proposed terminating Eximbank's direct loan program and replacing it with an enhanded Interest Matching Program (I-MATCH II). How will this change affect the affordability and availability of loans to companies such as Westinghouse, Rockwell, and Babcock & Wilcox? What will be the impact on our nation's exports and our balance of trade? What is the anticipated impact of the I-MATCH II program on subsidies by our trading partners? What will be the budgetary impact of this change?

MR. BOHN: The replacement of the direct loan program with the I-MATCH II Program should not affect the affordability and availability of Exim's fixed interest rate support of U. S. exports. The impact on our Nation's exports and balance of trade will be no different under either program. The I-MATCH II program is designed to counter the financing subsidies offered by our trading partners, as the direct loan program also is designed to do. The budgetary impact will be to accompish through guaranteed loans and direct subsidy payments what the Bank is now doing through direct loans. This will reduce the reported outlays of the government, and will better disclose the subsidy cost to the government.

SENATOR SPECTER: As you know, the President has requested the establishment of a new "Fair Export Financing Program" to spur U.S. exports. In addition, the Senate Banking Committee recently approved by voice vote a measure that would set up a $300 million "war chest" within the Eximbank to counter overseas governments that mix foreign aid with financing credits to boost ekxport sales.

How will this program be coordinated with Eximbank's other programs? What companies will receive these grants? How long will the program be continued:

MR. BOHN: Eximbank will continue to gather information from the other OECD countries on Tied Aid credits which compete with our exporters. It is our intention to use the war chest in cases where we determine that the buyer countries and industry sectors are of great importance to those other OECD countries which are delaying progress in the negotiations. The war chest fund would also enable our exporters to offer a combination of a soft loan and a hard loan or, in some cases, a grant and a hard loan. Possible war chest cases are reviewed on a case-by-case basis in conjunction with the Treasury Department. Therefore, I cannot say with certainty which U.S. companies would benefit from war chest offers to foreign buyers. Under the proposed legislation to create a special war chest fund, the program would continue until termination by congressional action or when the mixed credit negotiations in the OECD have been concluded successfully.

SENATOR SPECTER: The Export-Import Bank is expecting an operating deficit of $343 million for FY 1986 and a deficit of $302 million for FY 1987. What steps are being taken to diminish this deficit? How can we lower the operating deficit without compromising our exports?

MR. BOHN: Through the OECD negotiation process, Eximbank and Treasury have achieved considerable success in linking interest rates on officially supported export credit to market interest rates. Over time, this should substantially assist in reducing the Bank's operating deficit, without compromising U.S. exports.

Questions Submitted by Senator DeConcini

SENATOR DECONCINI: I understand that GAO has rendered an adverse opinion on your Financial Statements for FY 1983 and FY 1984. Why have they given this opinion?

MR. BOHN: The GAO believes that the Bank should determine that a portion of its soverign risk loans are uncollectable and establish a reserve for loan losses to recognize on the financial statements the amount determined to be uncollectable. Since the Bank does not do this and the GAO believes that the amounts involved are material, they have rendered an adverse opinion. The Bank disagrees with the GAO position that these loans will not be collected. The Bank believes that these soverign risk loans will be collected and should not have a reserve for uncollectable loans established for them.

SENATOR DECONCINI: Why do you continue to accrue interest on delinquent loans such as Cuba?

This seems to be accrued but not collected interest. What portion of your equity is comprised of unrealized interest?

MR. BOHN: The Bank does not accrue interest for financial statement purposes on delinquent loans to Cuba or on other protracted

defaults. Interest does accrue on some loans which are delinquent but on which collection action is in progress. As of September 30, 1985, the Bank had recorded $305 million in interest which was delinquent 90 days or more.

SENATOR DECONCINI: The I-MATCH Program seems to be a program that would cost the U.S. Government money. Why do you embrace this proposal? As I discussed this subject with Mr. Draper last year, he said that this would cost the taxpayer $42 million. By eliminating the direct loan program and requiring private sources to borrow money, aren't you eliminating the government as the cheapest means by which to borrow money?

MR. BOHN: The I-MATCH program is an effective way to provide support for U.S. exports facing fixed Arrangement rate financing competition from our trading partners. Further, it enables the export financing to be done through the private sector rather than the government, and thus acts to get private banks involved in export finance. It may be somewhat more expensive to the government than a direct loan program, but the benefits of increasing the private sector involvment in financing export tranactions are substantial.

SENATOR DECONCINI: What are your opinions on Senator Proxmire's proposed legislation requiring a $2 billion threshold on the equity position?

MR. BOHN: Although some infusion of capital may be required in the future I do not think that a $2 billion threshold on the Bank's equity is necessary. The Bank can continue to operate its programs regardless of its level of equity

SENATOR DECONCINI: Following up or a question asked last year, are you satisfied that all exporters who need help really get to the Bank? Small and medium sized businesses were having difficulty. The Bank responded by setting trail marketing testing programs. How are these functioning?

MR. BOHN: We are not satisfied that everything that could be done for small and medium sized business has been done. But we are working on it - hard.

We have reorganized the Bank. One of the main elements of the new structure is to focus on these concerns. We have aligned the Marketing Division with the insurance and U.S. programs areas. This group is responsible for existing programs for smaller businesses, it has the mandate to create new instruments and programs, and it will find new ways to improve access to the Bank and our programs.

I-MATCH is an important element in providing the incentive to commercial banks to provide fixed-rate financing for smaller transactions.

Several of our other programs are oriented to smaller businesses. With our Working Capital Guarantee program we can provide support for export trading companies as well as manufacturers. Our New-to-Export insurance policy provides enhancements to help promising new exporters. The Umbrella Insurance Policy gives the exporter the option to let an independent administrator handle the paperwork of

the insurance policy so that he or she can concentrate on a growing business.

We have met with representatives from state export promotion programs from across the country and will find ways to work with them, consistent with the legal status and authority which varies from state to state.

We are allowing banks with a demonstrated knowledge of our programs to commit us in Working Capital Guarantee cases. We are actively seeking other ways to broaden our distribution channels and to make access to Eximbank an easier and more productive exercise.

SENATOR DECONCINI: You said in your statement that the Eximbank "Has performed an important role in leveling the playing field in international trade." How are you doing this? What means are taking to combat unfair trade practices by foreign competitors?

MR. BOHN: Our role is to make sure that financing offers supported by governments of other countries do not put our own exporters at a disadvantage. In negotiations which began in the mid-1970's, but became much more successful in the 1980's, we have established an agreement among 22 major exporting countries including all western European countries, Canada, Japan, Australia and New Zealand. The agreement, which is called the "Arrangement On Guidelines For Officially Supported Export Credits," or "OECD Arrangement" for short, sets maximum repayment terms and establishes a formula for setting minimum officially-supported rates of interest on a periodic basis. Eximbank will provide a direct loan or provide a guarantee to enable a private lender to provide a loan at the minimum rates of the OECD Arrangement when Eximbank is satisfied that our exporters are facing officially-supported credits from other countries.

In addition to the role of neutralizing financing as a factor in the buyer's decision, Eximbank has an important role on the U.S. team which is negotiating improvements in the Arrangement, particularly in regard to the use of Tied Aid credits. Tied Aid credits can be used alone or in combination with an officially-supported export credit to generate a financing offer which can distort a buyer's decision in favor of goods which may be more expensive, absent the favorable financiang, or of lower quality. We are seeking to establish a minimum grant element for Tied Aid credits and mixed credits so that foreign governments would offer truly concessional financing in a relatively small number of cases where they think country conditions and the nature of the project actually dictate low interest rates and long repayment terms. We want to put an end to the large number of cases where marginal amounts of concessional financing is offered.

SENATOR DECONCINI: What is the purpose of the $300 million War Chest to compete with foreign businesses? Is there a direct grant element in this proposal?

MR. BOHN: The purpose of the War Chest is to help our exporters compete successfully in winning contracts which are important to those other OECD countries which are delaying progress in the negotiations in order to dramatize to those other countries that the

rules need to be improved. The fund will enable our exporters to offer a combination of a soft loan and a hard loan, or in some cases a grant and a hard loan. In either case, there will be a "Grant Element," which is a way of measuring the benefit to the buyer of the lower interest rate, longer repayment, or outright grant compared to normal commercial terms.

SENATOR DECONCINI: As the value of the dollar becomes more attractive in the international exchange rates, will this immediately improve our exporting ability?

MR. BOHN: Studies on the impact of exchange rate changes have generally shown that there is a lag of 12-18 months before changes in exchange rates are reflected in trade figures. This lag may be somewhat longer for capital goods due to the relatively long lead time necessary in placing orders. As a result, our budget forecasts predict that the drop in the dollar which began in mid-1985 will begin to significantly affect Eximbank demand in the second half of FY 1987 . This factor will likely have an even larger impact on Eximbank credit demand in FY 1988.

SENATOR DECONCINI: What would be the impact on the Private Export Funding Corporation (PEFCO) if I-MATCH were to be authorized?

MR. BOHN: It would have limited impact on PEFCO. In the Medium-Term area, PEFCO has indicated that it would be willing to buy Exim guaranteed fixed rate paper and therefore would act as a source of back-up liquidity for the banks originating the loans. We believe that this is probably the major role PEFCO will play in the I-MATCH Program.

SENATOR DECONCINI: What has Eximbank's experience been with regard to defaults arising from the insurance and guarantee programs -- What have been the payouts over the last five years? How have these loans performed?

MR. BOHN: Because of the difficult economic situation in many developing countries, the past five years have had a much greater default rate than the Bank normally has experienced. Although some of these claim payments will not be recovered, we expect that a substantial portion of the claims paid in this period will eventually be recovered by the Bank.

Guarantee & Insurance Losses & Recoveries
FY 1981 - FY 1985
($ Millions)

	Losses	Recoveries	Net Loss
FY 1981	$ 23.0	$ 8.1	$ 14.9
FY 1982	59.1	8.3	50.8
FY 1983	147.4	88.5	58.9
FY 1984	197.3	37.9	159.4
FY 1985	156.9	77.0	79.9
	$583.7	$219.8	$363.9

SENATOR DECONCINI: What does Exim do to assure itself that loan funds are used for the purposes intended? How is the loan potfolio

managed? How would you characterized Eximbank's internal audit capability?

— Independence
-- Scope of work

MR. BOHN: The Bank does not disburse funds to the foreign purchaser in advance of exports being made. The Bank disburses funds to the U.S. exporter as exports financed under the credit go forward. Eximbank requires that documents such as bills of lading, invoices, and supplier's certificates be submitted prior to funds being disbursed. This insures that the funds are used only for exports intended to be supported under the credit.

The Bank's loan officers and contract administration personnel continually monitor the performance of the loans in the portfolio. Twice a year, the Board holds a formal portfilio review session for which the quality of the portfilio and problem cases are analyzed by the staff and presented to and discussed with the Board.

Eximbank receives a thorough audit each year by the GAO which renders an opinion on the Bank's financial statements, its internal controls, and its compliance with laws and regulations. To supplement this, Exim has a small operational audit staff which performs internal control reviews, inventory reconciliations, and confirmations.

SENATOR DECONCINI: How much uncollected interest has been recorded as income from Eximbank's problem debt?

MR. BOHN: As of September 30, 1985, the Bank had $305 million of interest receivable which was delinquent 90 days or more.

SUBCOMMITTEE RECESS

Senator SPECTER. The subcommittee will recess, to reconvene at the call of the Chair.

[Whereupon, at 2:50 p.m., Wednesday, March 19, the subcommittee was recessed, to reconvene at the call of the Chair.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1987

THURSDAY, APRIL 10, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2 p.m. in room S–126, the Capitol, Hon. Robert W. Kasten, Jr., (chairman) presiding.

Present: Senators Kasten, D'Amato, Inouye, and DeConcini.

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF HERBERT L. BECKINGTON, INSPECTOR GENERAL, AGENCY FOR INTERNATIONAL DEVELOPMENT

ACCOMPANIED BY JAMES B. DURNIL, DEPUTY AND ASSISTANT INSPECTOR GENERAL FOR AUDIT

INTRODUCTION OF WITNESSES

Senator KASTEN. This afternoon, we will receive testimony from three separate witnesses. Our first witness will be General Herbert L. Beckington, the Inspector General of the Agency for International Development, followed by Ms. Deborah Szekely, the President of the Inter-American Foundation, followed by Mr. Leonard Robinson, the President of the African Development Foundation.

PREPARED STATEMENT

Originally, we were going to receive testimony from Loret Ruppe of the Peace Corps, but her schedule was unavoidably changed, and because we were not able to change our schedule for a later appearance, I have asked instead that her statement be inserted for the record today, and we will submit questions to the Peace Corps in writing.

[The prepared statement of Ms. Ruppe follows:]

58-220 O—87——12

PEACE CORPS

PREPARED STATEMENT OF LORET MILLER RUPPE, DIRECTOR

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE: I AM PLEASED TO BE HERE TODAY TO TESTIFY ON BEHALF OF OUR FISCAL YEAR 1987 APPROPRIATIONS REQUEST. THIS PRESENTATION SUPPORTS THE ADMINISTRATION'S REQUEST TO THE CONGRESS FOR $126.2 MILLION FOR PEACE CORPS FOR FISCAL YEAR 1987. THE REQUESTED LEVEL IS $3.8 MILLION BELOW THE FISCAL YEAR AUTHORIZATION OF $130 MILLION. I WOULD ALSO LIKE TO BRING YOU UP-TO-DATE ON OUR RECENT ACTIVITIES AND PLANS FOR THE COMING FISCAL YEAR.

THIS IS A VERY IMPORTANT YEAR FOR PEACE CORPS. WE ARE IN THE MIDST OF CELEBRATING OUR TWENTY-FIFTH ANNIVERSARY OF GRASS ROOTS SERVICE TO THE DEVELOPING WORLD. IN MAJOR CITIES ACROSS OUR NATION, LOCAL SPONSORS SUCH AS UNIVERSITIES, WORLD AFFAIRS COUNCILS AND RETURNED PEACE CORPS VOLUNTEER GROUPS ARE ORGANIZING SYMPOSIA WHICH FOCUS ON HOW PEACE CORPS CAN BETTER MEET THE CHALLENGES OF THE FUTURE. THE MAJOR THEME IS: "THE U.S. PARTNERSHIP WITH THE DEVELOPING WORLD."

IN SEPTEMBER, AT THE END OF PEACE CORPS' YEAR-LONG TWENTY-FIFTH ANNIVERSARY ACTIVITIES, THE PAPERS AND RECOMMENDATIONS RESULTING FROM THE SYMPOSIA WILL BE ANALYZED. I AM LOOKING FORWARD TO SHARING THIS ANALYSIS WITH THE PRESIDENT AND MEMBERS OF CONGRESS. WE ARE CONFIDENT THAT THE INSIGHTS AND INNOVATIVE APPROACHES RESULTING FROM THESE FORUMS WILL LEAD TO AN EVEN MORE PRODUCTIVE SECOND TWENTY-FIVE YEARS FOR PEACE CORPS.

OVER THE PAST TWENTY-FIVE YEARS MORE THAN 120,000 AMERICANS HAVE SERVED THE PEACE CORPS IN OVER 92 DEVELOPING NATIONS WORLD-WIDE. THESE AMERICANS NOT ONLY HELPED IMPROVE THE WAY OF LIFE FOR THE PEOPLE THEY SERVED, BUT THEY RETURNED TO

OUR NATION TO SHARE THEIR INSIGHTS AND EXPERTISE WITH THEIR FELLOW AMERICANS. ALL FIFTY STATES HAVE BENEFITED FROM THE EXPERIENCES OF RETURNED VOLUNTEERS.

SINCE I LAST TESTIFIED BEFORE YOU I AM PLEASED TO TELL YOU THAT PEACE CORPS HAD INCREASED THE NUMBER OF VOLUNTEERS SERVING THROUGHOUT THE DEVELOPING WORLD. AT THE END OF FISCAL YEAR 1985 WE HAD OVER 6,200 VOLUNTEERS WORLD-WIDE. IN FISCAL YEAR 1987 WE PROJECT TO BE ABLE TO SUPPORT APPROXIMATELY 5,000 VOLUNTEERS. THIS NUMBER IS SUBSTANTIALLY LESS THAN WE HAD PLANNED BASED ON OUR PRE-GRAMM-RUDMAN LEVEL OF $130 MILLION. EARLIER PROJECTED LEVELS FOR FISCAL YEARS 1986 AND 1987 CALLED FOR 6,000 VOLUNTEERS EACH YEAR.

LAST YEAR WE FIELDED OVER 3,400 NEW VOLUNTEERS. THIS WAS 200 MORE THAN I PROJECTED IN LAST YEAR'S TESTIMONY. IN FISCAL YEARS 1986 AND 1987 PEACE CORPS HOPE TO FIELD APPROXIMATELY 2,600 NEW VOLUNTEERS EACH YEAR.

VOLUNTEER PROJECTS

THE NEW VOLUNTEERS GOING INTO THE FIELD NEXT YEAR, WILL WORK IN PROJECTS DIRECTED AT IMPROVED HEALTH, AGRICULTURE, ENERGY CONSERVATION, AND OUR NEW AFRICA FOOD INITIATIVE. CURRENT VOLUNTEER PROGRAM DISTRIBUTION INCLUDES:

516 VOLUNTEERS ARE WORKING IN HEALTH RELATED FIELDS, INCLUDING RURAL HEALTH CLINICS, ORAL REHYDRATION, COMBATTING CHILDHOOD DISEASES (CCD), AND TRAINING OF HOST COUNTRY NATIONALS IN BASIC HEALTH TECHNIQUES INCLUDING IMPROVED NUTRITION.

1,747 VOLUNTEERS ARE WORKING IN AGRICULTURE PROJECTS, INCLUDING HOME GARDENS, IMPROVED FOOD PRODUCTION METHODS, ANIMAL HUSBANDRY, AND COMMUNITY DEVELOPMENT.

77 OF THEM ARE SERVING AS PLANNERS, DESIGNERS AND SUPERVISORS OF WATER RESOURCE PROJECTS INCLUDING SMALL DAMS, SPILLWAYS AND IRRIGATION CANALS IN RURAL AREAS.

138 VOLUNTEERS WORK IN AREAS OF RENEWABLE ENERGY AND SAFE ENERGY CONSERVATION.

1,684 VOLUNTEERS ARE WORKING IN EDUCATION RELATED AREAS, INCLUDING VOCATIONAL EDUCATION, SECONDARY EDUCATION, MATH, SCIENCE, AND TEACHER TRAINING.

IN ADDITION TO THEIR MAJOR PROJECTS MOST OF THE CURRENT VOLUNTEERS ALSO HAVE

SECONDARY PROJECTS DIRECTED AT HELPING TO IMPROVE THE LIVES OF THE PEOPLE IN THE AREAS THEY SERVE.

TO GIVE YOU AN EXAMPLE OF THE IMPACT THESE VOLUNTEERS HAVE ON THE PEOPLE IN THE DEVELOPING WORLD, LAST YEAR, IN OUR PHILIPPINES PROGRAM, THE WORK OF 70 RURAL HEALTH VOLUNTEERS DIRECTLY AFFECTED 20,400 PEOPLE IN 68 VILLAGES. THEIR EFFORTS INDIRECTLY AFFECTED OVER 40,000 PEOPLE LIVING IN 130 COMMUNITIES.

THE 50 VOLUNTEERS WORKING IN AGRICULTURE RELATED PROJECTS IN THAT COUNTRY DIRECTLY AFFECTED ALMOST 7,000 PEOPLE IN 23 RURAL COMMUNITIES. THEY INDIRECTLY AFFECTED 13,800 PEOPLE IN 46 COMMUNITIES.

ANOTHER GOOD EXAMPLE OF OUR VOLUNTEERS' IMPACT WOULD BE OUR HAITI PROGRAM. PEACE CORPS ENTERED HAITI FOR THE FIRST TIME IN 1983. LAST YEAR, SEVEN PEACE CORPS VOLUNTEERS WORKING IN RURAL HEALTH, TRAVELED REGIONALLY THROUGHOUT HAITI WORKING IN RURAL IMMUNIZATION AND PUBLIC HEALTH PHARMACIES. IMMUNIZATION VOLUNTEERS ARE IMPLEMENTING A NATIONWIDE VACCINATION PROJECT, ESTABLISHING "COLD-CHAIN" INSTALLATIONS IN RURAL DISPENSARIES. COMMUNITY PHARMACY VOLUNTEERS INCREASE THE SUPPLY OF LIFE-SAVING DRUGS TO RURAL AREAS AND ADVISE AND TRAIN OTHERS IN PHARMACY MANAGEMENT. THE WORK OF THESE SEVEN VOLUNTEERS DIRECTLY AFFECTED 85,000 PEOPLE IN 450 RURAL COMMUNITIES. THEIR EFFORTS HAD A CALCULATED INDIRECT AFFECT ON 2 MILLION PEOPLE THROUGHOUT THE FOUR REGIONS OF HAITI.

PEACE CORPS VOLUNTEER PROGRAMS IN HAITI AND THE PHILIPPINES WERE SOMEWHAT DISRUPTED WITH THE RECENT EVENTS IN THOSE TWO COUNTRIES. HOWEVER, I AM PLEASED TO TELL YOU THAT IN HAITI ALL FORTY VOLUNTEERS ELECTED TO REMAIN IN THE COUNTRY AND CONTINUE THEIR VALUABLE WORK.

IN THE PHILIPPINES, OUR LARGEST PROGRAM, WHERE 316 VOLUNTEERS ARE SERVING, ONLY THREE ASKED TO LEAVE. IN THAT COUNTRY, PEACE CORPS VOLUNTEERS ARE WORKING IN TWELVE OF THE THIRTEEN PHILIPPINE REGIONS. OUR LARGEST NUMBERS OF VOLUNTEERS ARE CONCENTRATED IN THE POOREST REGIONS--VESAYAS AND BICOL. WE ARE LOOKING FORWARD TO WORKING WITH THE NEW FILIPINO AND HAITIAN GOVERNMENTS TO INCREASE PROGRAMS IN THOSE COUNTRIES.

UNITED NATION'S VOLUNTEERS (UNV'S)

IN ADDITION TO OPERATING INDIVIDUAL COUNTRY PROGRAMS, PEACE CORPS SPONSORS THE UNITED NATIONS VOLUNTEER PROGRAM. WE CURRENTLY HAVE 34 VOLUNTEERS SERVING IN THIS PROGRAM. IN FISCAL YEAR 1987 PEACE CORPS WILL RECRUIT AND FUND TWENTY NEW VOLUNTEERS THROUGH THE UNITED NATIONS VOLUNTEER PROGRAM. THE UNV PROGRAM ALLOWS AMERICAN VOLUNTEERS TO PARTICIPATE IN A MULTI-NATIONAL VOLUNTEER FORCE SERVING EITHER UN AGENCIES OR MINISTRIES OF HOST COUNTRY GOVERNMENTS. AMERICAN VOLUNTEERS SERVING WITH THE UNV PROGRAM OFTEN SERVE IN COUNTRIES WHERE THERE IS NO FORMAL PEACE CORPS PROGRAM. IN 1986, AMERICAN UN VOLUNTEERS ARE SERVING IN NON-PEACE CORPS COUNTRIES INCLUDING BANGLADESH, CONGO, ETHIOPIA, INDONESIA, SOMALIA, PEOPLE'S REPUBLIC OF CHINA, AND TURKEY.

AFRICA FOOD SYSTEMS INITIATIVE (AFSI)

LAST YEAR WE MOVED FORWARD ON OUR AFRICA FOOD SYSTEMS INITIATIVE. PROGRAM AND PROJECT STUDIES ARE COMPLETED AND WE ARE NOW READY TO BEGIN PLACING TEAMS OF VOLUNTEERS INTO THREE OF THE FOUR PILOT COUNTRIES: MALI, ZAIRE, AND LESOTHO. NIGER, THE FOURTH PILOT PROGRAM WILL BE INITIATED IN FISCAL YEAR 1987. AT THE END OF THIS FISCAL YEAR WE EXPECT TO HAVE 108 VOLUNTEERS WORKING IN THE AFRICAN FOOD SYSTEMS INITIATIVE PROGRAM. OUR PROJECTED LEVEL FOR THIS PROGRAM FOR FISCAL YEAR 1986 WAS 150 VOLUNTEERS.

AS I TOLD YOU LAST YEAR, THE AFRICA FOOD SYSTEMS INITIATIVE, IS PLANNED AS A LONG-TERM GRASS ROOTS FOOD PRODUCTION PROGRAM TO BENEFIT UP TO TWELVE AFRICAN NATIONS. TEAMS OF FROM FIVE TO TEN VOLUNTEERS WILL WORK WITH AFRICAN SUBSISTENCE FARMERS (A MAJORITY OF WHOM ARE WOMEN). THEY WILL WORK AT THE VILLAGE LEVEL, USING PROVEN TECHNOLOGY APPROPRIATE TO LOCAL CONDITIONS AND CONSTRAINTS TO HELP THE AFRICANS DEVELOP SOUND FARMING PRACTICES. THE VOLUNTEERS WILL HELP HOST COUNTRY FARMERS TO MAXIMIZE EFFICIENT USE OF SCARCE WATER BY HELPING THEM CONSTRUCT WELLS, WATER LIFTING DEVICES, AND SMALL SCALE IRRIGATION PROJECTS. CROP EXTENSION VOLUNTEERS WILL HELP THE FARMERS IMPROVE GARDEN AND HIGH-YIELD CROP PRODUCTION. THEY WILL ALSO PROMOTE SOIL CONSERVATION AND INCREASED FIREWOOD PRODUCTION. OTHERS WILL HELP FARMERS TO PRESERVE, PROCESS, DISTRIBUTE AND MARKET THEIR CROPS. IN ZAIRE VOLUNTEERS WILL TRAIN

TEACHERS IN THE USE OF A NUTRITION CURRICULUM FOR PRIMARY STUDENTS. WE EXPECT TO HAVE 500 VOLUNTEERS WORKING IN AFSI BY 1980 ALONE. THIS INITIATIVE CONTINUES TO BE A VERY HIGH PRIORITY FOR THE PEACE CORPS.

NEW COUNTRY ENTRIES

LAST YEAR, AS PEACE CORPS MOVED FORWARD ON ITS IMPORTANT FOOD INITIATIVE IN AFRICA, WE ALSO HAD THE PLEASURE OF ENTERING A NEW PROGRAM WITH GUINEA, AFRICA. THIS YEAR, WE PLAN TO BEGIN A PROGRAM WITH EQUATORIAL GUINEA. NO NEW COUNTRY ENTRIES ARE PLANNED FOR FISCAL YEAR 1987.

PEACE CORPS INCREASES COLLABORATIVE EFFORTS

TO BUILD BETTER PEACE CORPS PROGRAMS WE MUST CONTINUE TO BUILD OUR COLLABORATIVE EFFORTS WITH OTHER U.S. AGENCIES AND PRIVATE RELIEF ORGANIZATIONS. THIS YEAR, USAID DIRECTOR, PETER MCPHERSON AND I SENT A JOINT REPORT TO CONGRESS DETAILING LAST YEAR'S MANY SUCCESSFUL COLLABORATIVE PROJECTS THROUGHOUT THE DEVELOPING WORLD.

OF MAJOR IMPORTANCE ARE THE PROGRAMS INVOLVING RURAL HEALTH, INCLUDING THE COMBATTING CHILDHOOD DISEASES PROGRAM (CCD), POTABLE WATER AND SANITATION PROJECTS, AND FOOD PRODUCTION PROGRAMS INCLUDING SEMI-ARID GRAIN RESEARCH AND PEST CONTROL.

WE CURRENTLY HAVE INTER-AGENCY AGREEMENTS WITH THE U.S. DEPARTMENT OF AGRICULTURE, THE U.S. SOIL CONSERVATION SERVICE, THE UNITED STATES FOREST SERVICE, AND THE NATIONAL PARK SERVICE. COLLABORATIVE PROGRAMMING INITIATIVES ARE UNDERWAY WITH MAN AND BIOSPHERE (A STATE DEPARTMENT ORGANIZATION), THE INTERNATIONAL INSTITUTE FOR ENVIRONMENT AND DEVELOPMENT (IIED) (A NON-GOVERNMENT ORGANIZATION), AND THE WORLD WILDLIFE FUND.

IN FISCAL YEAR 1987 TO ENHANCE AGENCY PROGRAMMING, PEACE CORPS WILL INCREASE COLLABORATIVE EFFORTS WITH PRIVATE AND PUBLIC ORGANIZATIONS IN THE UNITED STATES AND IN THE DEVELOPING COUNTRIES WHERE OUR VOLUNTEERS SERVE.

WE PLAN EXPANDED EFFORTS WITH USAID AND OTHER FEDERAL AGENCIES AS WELL AS JOINT VENTURES SIMILAR TO OUR AGREEMENTS WITH PARTNERS OF AMERICAS AND THE LEAGUE FOR

INTERNATIONAL FOOD EDUCATION. THE EFFECTIVENESS OF THE VOLUNTEERS WILL BE ENHANCED BY WORKING IN PROJECTS THAT RECEIVE SUPPORT FROM OTHERS IN THE DEVELOPMENT FIELD.

IMPROVED TRAINING

THE OFFICE OF TRAINING AND PROGRAM SUPPORT (OTAPS) WORKS CLOSELY WITH THE COLLABORATIVE PROGRAMS DESCRIBED ABOVE. THIS OFFICE ALSO PROVIDES TECHNICAL ASSISTANCE TO OUR OVERSEAS STAFF, VOLUNTEERS AND HOST COUNTRY PERSONNEL THROUGH A SMALL STAFF OF PROGRAM SPECIALISTS WHO TRAIN AND ADVISE ON PROGRAMS RELATED TO AGRICULTURE, HEALTH, EDUCATION, FORESTRY, FISHERIES (FRESH WATER AND MARINE), WATER RESOURCES, SANITATION, AND SMALL BUSINESS DEVELOPMENT.

OTAPS IS ALSO RESPONSIBLE FOR THE WOMEN IN DEVELOPMENT (WID) FUNCTIONS INITIATED BY PEACE CORPS. THE RESPONSIBILITY OF THIS OFFICE IS TO SEE THAT OUR PROGRAMS AND PROJECTS ARE DEVELOPED TO BETTER ADDRESS THE NEEDS OF WOMEN IN THE DEVELOPING WORLD. THIS INCLUDES REVIEWING AND MAKING RECOMMENDATIONS ON PROGRAMS TO TRAIN WOMEN IN THE THIRD WORLD TO SUCCESSFULLY RUN SMALL OR MICRO BUSINESSES AND IMPROVE THE WOMEN IN AGRICULTURE PROJECTS.

THE OFFICE FOR INFORMATION COLLECTION AND EXCHANGE (ICE) IS ANOTHER FUNCTION OF OTAPS. MASSED IN THIS FACILITY IS A CONSIDERABLE AMOUNT OF "HOW-TO-DO" BOOKS WRITTEN BY AND FOR THE VOLUNTEERS IN THE FIELD. THESE PRACTICAL DOCUMENTS ARE REQUESTED BY VOLUNTEERS, OVERSEAS STAFF, HOST COUNTRY GOVERNMENTS, AMERICAN UNIVERSITIES AND OTHERS WORKING IN THE DEVELOPMENT FIELD WORLD-WIDE.

BESIDES PROVIDING PRINTED INFORMATION, THE ICE FACILITY PROVIDES SERVICE TO VOLUNTEERS AND STAFF BY ANSWERING TECHNICAL INQUIRIES. TODAY, ICE ANSWERS OVER 6,000 REQUESTS PER YEAR, DRAWING ON AN INVENTORY OF OVER 500 TITLES. THE OFFICE PERSONNEL MAINTAIN CONTACTS WITH MORE THAN 250 GROUPS WORKING IN DEVELOPMENT AROUND THE WORLD.

WHAT IS MOST IMPORTANT TO NOTE, IS THAT THROUGH THE ICE FUNCTIONS, IT HAS BECOME WIDELY RECOGNIZED THAT THE INFORMATION PRODUCED BY THOUSANDS OF PEACE CORPS VOLUNTEERS WORKING IN GRASS ROOTS PROGRAMS FOR TWENTY-FIVE YEARS CONSTITUTES A UNIQUE RESOURCE FOR DEVELOPMENT.

BECAUSE ICE SERVES AS A MEANS OF COLLECTING THE BEST RESULTS OF VOLUNTEER PROJECTS AND SHARING THEM WITH OTHERS IN THE DEVELOPMENT COMMUNITY, THE WORK ONE VOLUNTEER DOES IN ONE COMMUNITY CAN HAVE A WORLD-WIDE IMPACT. FOR EXAMPLE:

- A MANUAL WRITTEN BY TWO PEACE CORPS VOLUNTEERS IN JAMAICA WAS LATER ADAPTED BY OTHER VOLUNTEERS IN LIBERIA. THAT MANUAL IS NOW USED BY THE MINISTRY OF AGRICULTURE TO TRAIN LIBERIAN FIELD WORKERS.

- AN AGRICULTURAL EXTENSION MANUAL BASED ON VOLUNTEER EXPERIENCE IN LATIN AMERICAN AND WEST AFRICA IS BEING TRANSLATED INTO CHINESE BY A STUDENT IN THE PEOPLE'S REPUBLIC OF CHINA. THE STUDENT HAD REQUESTED A COPY OF THE MANUAL FROM ICE AFTER HEARING ABOUT IT ON A SPECIAL VOICE OF AMERICA BROADCAST.

IN FISCAL YEAR 1987 ICE WILL CONTINUE ITS EFFORTS TO COLLECT INFORMATION GENERATED IN VOLUNTEER PROJECTS, TO PROVIDE MORE AND BETTER PUBLICATIONS TO MEET FIELD NEEDS AND TO PROVIDE FULLER ANSWERS TO ALL THE MANY QUESTIONS GENERATED BY OUR VOLUNTEERS.

PRIVATE SECTOR DEVELOPMENT

THE OFFICE OF PRIVATE SECTOR DEVELOPMENT (OPSD) WAS CREATED BY THE DIRECTOR OF PEACE CORPS IN DIRECT RESPONSE TO THE ADMINISTRATION'S STRONG EMPHASIS ON PRIVATE SECTOR INITIATIVES. A PRIMARY GOAL OF THE OFFICE IS TO INCREASE LEVELS OF SUPPORT AND PARTICIPATION OF THE PRIVATE SECTOR IN CERTAIN PEACE CORPS PROGRAMS AND ACTIVITIES. THE OPSD SERVES AS THE FOCAL POINT FOR IDENTIFYING AND COORDINATING GIFTS AND CONTRIBUTIONS TO THE PEACE CORPS TO FURTHER ITS OVERALL PURPOSE AND MISSION IN DEVELOPING COUNTRIES.

CONTRIBUTIONS FROM THE PRIVATE SECTOR ARE ONE OF THE FEW MEASURABLE INDICATORS OF PUBLIC SUPPORT FOR PEACE CORPS' CURRENT AND LONG-TERM GOALS. IN ADDITION TO THE FORMAL PEACE CORPS PARTNERSHIP AND IN-KIND CONTRIBUTION PROGRAMS, A CONSIDERABLE NUMBER OF OTHER GIFTS AND DONATIONS HAVE BEEN RECEIVED BY THE AGENCY. THE MOST SIGNIFICANT EXAMPLE IS THE SERVICE PROVIDED TO PEACE CORPS MARKETING AND RECRUITMENT EFFORTS BY THE ADVERTISING COUNCIL. THE AGENCY ASSIGNED BY THE AD COUNCIL TO THE PEACE CORPS CAMPAIGN HAS DONATED $100,000 WORTH OF ITS STAFF TIME AND SERVICES. THE ACTUAL VALUE OF ADVERTISING AIRTIME

DONATED ON BEHALF OF PEACE CORPS LAST YEAR AMOUNTED TO $32,964,608.00. OTHER PRIVATE SOURCES HAVE ALSO MADE CLEAR THEIR SUPPORT OF PEACE CORPS ACTIVITIES. THEY HAVE PROVIDED MATERIALS, SUPPLIED TRANSPORTATION, DONATED EQUIPMENT AND SERVICES. WE ESTIMATE THESE ADDITIONAL DONATIONS HAVE TOTALED $288,577.00 IN FISCAL YEAR 1985.

THE PARTNERSHIP PROGRAM WAS RESPONSIBLE FOR FUNDING 92 PEACE CORPS VOLUNTEER PROJECTS. THIS EFFORT INVOLVED 260 U.S. CITIZENS, SCHOOL GROUPS, CORPORATION FOUNDATIONS, CHURCHES AND RETURNED PEACE CORPS VOLUNTEER ASSOCIATIONS. $171,501.76 WAS RECEIVED IN DONATIONS AND PLEDGES IN FISCAL YEAR 1985 WITH THE AVERAGE DONATION BEING $700.00. THE AVERAGE COST OF THE PROJECT FUNDED WAS $1,885.00.

IN-KIND CONTRIBUTIONS TO THE PEACE CORPS ARE STILL GROWING RAPIDLY: TOTAL IN-KIND CONTRIBUTIONS REACHED AN ALL-TIME HIGH OF OVER $500,000.00 IN ONLY TWO FULL YEARS OF OPERATION. LAST YEAR IN-KIND CONTRIBUTIONS TOTALED $225,000.00.

IN FISCAL YEAR 1987 THIS OFFICE WILL PLACE A GREATER EMPHASIS ON EDUCATING AMERICANS ABOUT THE PEOPLE OF THE DEVELOPING WORLD AND THEIR NEEDS.

VOLUNTEER RECRUITMENT AND SUPPORT

LAST YEAR THE PEACE CORPS CHANGED THE NAME OF THE MARKETING, RECRUITMENT AND PLACEMENT STAGING (MRPS) TO VOLUNTEER RECRUITMENT AND SELECTION (VRS).

WE ARE PROUD TO HAVE THE HONORABLE ARLEN ERDAHL, FORMER CONGRESSMAN FROM MINNESOTA, AS THE NEW ASSOCIATE DIRECTOR FOR THIS OFFICE. ARLEN ERDAHL PREVIOUSLY SERVED AS COUNTRY DIRECTOR FOR JAMAICA BEFORE TAKING ON HIS NEW DUTIES.

PUBLIC AWARENESS AND VOLUNTEER RECRUITMENT ACTIVITIES WERE EXTREMELY SUCCESSFUL LAST YEAR. LAST JANUARY'S APPEAL FOR AGRICULTURE VOLUNTEERS NEEDED TO GO TO WORK IN AFRICA RESULTED IN OVER 20,000 AMERICANS CALLING TO EXPRESS AN INTEREST IN SERVING AS PEACE CORPS VOLUNTEERS.

MORE RECENTLY, DURING THE LAST WEEK OF FEBRUARY, OVER 5,000 PEOPLE CONTACTED THE RECRUITING OFFICE SEEKING INFORMATION ON BECOMING VOLUNTEERS.

PUBLIC AWARENESS HAS INCREASED DRAMATICALLY. THE PEACE CORPS AWARENESS CAMPAIGN FOCUSES ON BOTH THE GENERAL PUBLIC AND ON SPECIFIC GROUPS WITH SPECIAL SKILLS SOUGHT BY HOST COUNTRIES. INCREASED RECRUITMENT EFFORTS DIRECTED AT OLDER AMERICANS AND MINORITIES HAVE RESULTED IN INCREASED NUMBERS OF THESE VALUABLE VOLUNTEERS. AS A RESULT OF OUR OLDER AMERICAN RECRUITMENT EFFORTS, THE AVERAGE AGE OF THE PEACE CORPS VOLUNTEER NOW STANDS AT 30 YEARS OF AGE.

LAST YEAR THE PEACE CORPS RECRUITING OFFICE HANDLED OVER 170,000 INQUIRIES. IN FISCAL YEAR 1987 PEACE CORPS WILL HAVE TO REDUCE ITS RECRUITMENT EFFORTS TO MEET THE GOALS OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985.

PLACEMENT

THE PLACEMENT UNIT OF THE VRS WAS RESPONSIBLE FOR PLACING OVER 3,400 NEW VOLUNTEERS IN FISCAL YEAR 1985. THIS REPRESENTS AN INCREASE OF 200 OVER OUR PROJECTED FIGURES FOR LAST YEAR AND COMPARES TO 2781 IN FISCAL YEAR 1984 AND 2970 IN FISCAL YEAR 1983. OUR NEW VOLUNTEER LEVEL IN 1986 AND 1987 WILL BE AN EXPECTED 2,600. THESE 2,600 VOLUNTEERS WILL BE SELECTED FROM OVER 5,300 QUALIFIED CANDIDATES.

ALL PEACE CORPS VOLUNTEER APPLICANTS ARE SCREENED THOROUGHLY PRIOR TO BEING SELECTED AS VOLUNTEERS. ONLY THE MOST QUALIFIED ARE SELECTED TO SERVE.

STAGING

BESIDES A THOROUGH APPLICANT SCREENING PROCESS, ALL VOLUNTEER CANDIDATES SELECTED TO SERVE AS PEACE CORPS VOLUNTEERS ARE SCREENED AGAIN IN THE UNITED STATES AND GO THROUGH AN INTRODUCTION TO PEACE CORPS PRIOR TO GOING OVERSEAS. MOST CANDIDATES GO THROUGH AN INTENSIVE FIVE DAY SCREENING PROGRAM CALLED CREST. THIS IS THE LEAST EXPENSIVE OF OUR TWO STATESIDE TRAINING PROGRAMS. IN KEEPING WITH THE GAO RECOMMENDATIONS OF FISCAL YEAR 1984, WE ARE CREST'ING MORE CANDIDATES EACH YEAR.

THE CREST'ING METHOD OF SCREENING AND PREPARATION IS OUR MOST POPULAR METHOD WITH HOST COUNTRY GOVERNMENTS, VOLUNTEERS, AND STAFF.

THE OTHER METHOD OF CANDIDATE PREPARATION AND TRAINING IS THE CENTER FOR ASSESSMENT AND TRAINING (CAST). THIS EIGHT DAY PROGRAM IS OUR MOST DIFFICULT

AND IT PROVIDES SCREENING AND TRAINING FOR THE MOST SENSITIVE AND DIFFICULT PEACE CORPS ASSIGNMENTS.

FOR THOSE PROGRAMS THAT ARE NEITHER CAST OR CREST'D, THE CANDIDATES GO THROUGH A STATESIDE PREPARATION PROGRAM WHICH IS A THREE DAY COMPREHENSIVE STAGING THAT EMPHASIZES PRE-DEPARTURE ORIENTATION.

THE NUMBER OF VOLUNTEERS REQUESTING TO TERMINATE EARLY HAS BEEN DECLINING EACH YEAR. WE ATTRIBUTE THIS TO BETTER SCREENING AND HANDLING OF VOLUNTEER CANDIDATES THROUGH THE ENTIRE PLACEMENT STAGING PROCESS.

OUR GOAL FOR FISCAL YEAR 1987 WILL CONTINUE TO FOCUS ON THE VOLUNTEER REQUIREMENTS--TO REDUCE COST AND IMPROVE EFFICIENCY OF THE PLACEMENT STAGING OPERATION AND TO IMPROVE THE QUALITY OF THE VOLUNTEERS SENT OVERSEAS.

TRAINING

PEACE CORPS TRAINING FALLS INTO TWO CATEGORIES: NEW VOLUNTEER (PRE-SERVICE) TRAINING AND IN-SERVICE TRAINING.

MOST PRE-SERVICE TRAINING TAKES PLACE OVERSEAS, ALTHOUGH SOME SKILL TRAINING PROGRAMS (FISH CULTURE, FORESTRY, VEGETABLE GARDENING, AND SMALL ANIMAL HUSBANDRY) TAKE PLACE STATESIDE. THESE STATESIDE TRAINING PROGRAMS PROVIDE VOLUNTEERS WITH THE INTERMEDIATE LEVEL TECHNICAL SKILLS WHICH HOST COUNTRIES NEED, BUT PEACE CORPS HAS DIFFICULTY RECRUITING.

PRE-SERVICE TRAINING ALSO INCLUDES LANGUAGE INSTRUCTION IN MORE THAN 75 DIFFERENT LANGUAGES. SOME TECHNICAL TRAINING IS PROVIDED IN A VARIETY OF FIELDS SUCH AS: WELL CONSTRUCTION, PUMP REPAIR, ADULT EDUCATION, COMMUNITY HEALTH TECHNIQUES. OTHER TRAINING FOCUSES ON METHODS TO IMPROVE CATTLE PRODUCTION, RAISE SMALL ANIMALS SUCH AS RABBITS, CHICKENS, PIGS, AND BEEKEEPING.

PRE-SERVICE TRAINING ALSO INCLUDES CROSS-CULTURAL TRAINING IN HOST COUNTRY CUSTOMS. THIS INCLUDES THE COUNTRY'S HISTORY, CURRENT EVENTS, SOCIAL STRUCTURES, RELIGIONS, BELIEFS AND VALUES. VOLUNTEERS MUST LEARN THE SKILLS NEEDED TO LIVE IN SOCIETIES VASTLY DIFFERENT FROM THAT OF THE UNITED STATES.

INCLUDED IN THE PRE-SERVICE INSTRUCTION ARE ESSENTIAL SURVIVAL SKILLS.

VOLUNTEERS ARE TAUGHT HOW TO HAVE A BALANCED DIET BASED ON MILLET, RICE, CORN, COU-COUS, TARO OR BREAD FRUIT, AND HOW TO PREPARE THEM WITHOUT MODERN CONVENIENCES. THEY LEARN NUTRITION, FIRST AID, AND BASIC HEALTH CARE. THEY ALSO LEARN THE ESSENTIAL ELEMENTS FOR ADAPTING TO LIFE IN THE DESERT OR NEAR DESERT IN SUB-SAHARAN AFRICA, THE MOUNTAINS IN THE ANDES OR HIMALAYAS OR ON A SMALL TROPICAL ISLAND.

THE IN-SERVICE TRAINING PROGRAM IS USED TO MEET THE VOLUNTEERS' NEEDS THAT EMERGE AFTER THEY BEGIN WORK. MOST IN-SERVICE TRAINING IS DIRECTED TOWARD IMPROVING VOLUNTEERS' TECHNICAL SKILLS AND LOCAL LANGUAGE ACQUISITION. FUNDING FROM USAID ALSO AFFORDS PEACE CORPS THE OPPORTUNITY TO TRAIN VOLUNTEERS AND THEIR HOST COUNTRY COUNTERPARTS SIMULTANEOUSLY.

PEACE CORPS IS CONTINUALLY LOOKING FOR WAYS TO BETTER TRAIN OUR VOLUNTEERS BY USING MORE EFFICIENT, COST EFFECTIVE METHODS.

IMPROVED MANAGEMENT

THE OFFICE OF MANAGEMENT ASSISTS IN THE ACCOMPLISHMENT OF AGENCY OPERATING GOALS AND OBJECTIVES BY PROVIDING MANAGEMENT SUPPORT TO DOMESTIC AND OVERSEAS OPERATIONS, AND DIRECT SUPPORT TO VOLUNTEERS AND PROSPECTIVE VOLUNTEERS IN THE AREA OF MEDICAL SUPPORT SERVICE.

IN FISCAL YEAR 1985 OUR MANAGEMENT OFFICES:

- CONTINUED TO PROVIDE AN EFFECTIVE VOLUNTEER HEALTH CARE PROGRAM, PUBLISHED NEW AND EXPANDED TECHNICAL GUIDELINES FOR OUR OVERSEAS MEDICAL STAFF, AND CONDUCTED RESEARCH IN SUCH AREAS AS: RABIES VACCINE, FILARIASIS PREVENTION, AND ADMINISTRATION OF HEPATITIS "B" VACCINE;

- REVISED THE COUNTRY MANAGEMENT PLAN HANDBOOK, WHICH PROVIDES THE FRAMEWORK FOR THE DEVELOPMENT OF COUNTRY OPERATING PLANS AND BUDGETS, AND IMPLEMENTED A COUNTRY PROGRAM REVIEW/MONITORING SYSTEM WHICH WILL PROVIDE AN ONGOING SELF-ASSESSMENT TOOL FOR OVERSEAS POSTS;

- REVISED PROCEDURES FOR HANDLING RECRUITMENT FOR OVERSEAS POSITIONS TO ENSURE PROMPT FILLING OF VACANCIES;

- FORMALIZED REVIEW PROCEDURES FOR PEACE CORPS MANUAL REVISIONS TO ENSURE COMPLIANCE WITH PROGRAM AND POLICY CHANGES;

- COMPLETED PHASE III OF OUR "OVERSEAS COMPUTER INITIATIVE" WHICH PLACED MICRO-COMPUTERS AND STANDARD APPLICATIONS PROGRAMS IN OUR POSTS OVERSEAS TO REDUCE PAPERWORK AND TEDIOUS MANUAL CALCULATIONS, STANDARDIZED PROGRAM AND FINANCIAL DATA, AND ESTABLISHED APPROPRIATE INTERNAL CONTROLS FOR RESOURCE MANAGEMENT; AND

- CONTINUED A FOUR-YEAR REPLACEMENT CYCLE FOR OVERSEAS VEHICLES. (THE EFFECTS OF GRAMM-RUDMAN-HOLLINGS LEGISLATION HAS RESULTED IN A PLANNED FIVE-YEAR CYCLE FOR OVERSEAS VEHICLES.)

IN FISCAL YEAR 1987 THE MANAGEMENT OFFICE WILL CONTINUE ITS GOAL OF ACHIEVING EXCELLENCE IN ITS ADMINISTRATIVE MANAGEMENT SUPPORT FUNCTIONS.

PEACE CORPS REGIONAL EFFORTS
AFRICA, NANEAP, AND INTER-AMERICA

AFRICA

LAST YEAR PEACE CORPS PLACED A GREATER EMPHASIS ON AFRICA'S FOOD PRODUCTION NEEDS. WE BEGAN A NEW INITIATIVE CALLED THE AFRICA FOOD SYSTEMS INITIATIVE IN RESPONSE TO THE GROWING FOOD SHORTAGES ON THAT CONTINENT. NEXT MONTH WE WILL BEGIN TRAINING TEAMS OF VOLUNTEERS TO BEGIN WORK IN THIS PROGRAM.

IN ADDITION TO THE FOOD INITIATIVE, THE PEACE CORPS HAS 2,600 VOLUNTEERS SERVING IN AFRICA. THESE VOLUNTEERS HELP TO ADDRESS THE CRITICAL DEFICIENCIES IN OTHER AREAS SUCH AS, RURAL HEALTH CARE, REFORESTATION, COMMUNITY DEVELOPMENT PROJECTS, WATER RESOURCES AND SANITATION, MICRO-BUSINESS DEVELOPMENT, ANIMAL HUSBANDRY AND BEEKEEPING.

THESE AMERICANS ARE MAKING A POSITIVE IMPACT ON THE PEOPLE THEY SERVE. FOR EXAMPLE:

- IN BENIN: IN FORESTRY, VOLUNTEERS SET UP TREE NURSERIES TO SERVE VILLAGE NEEDS, ORGANIZED AND EDUCATED BENEFICIARY GROUPS, AND GAVE

TECHNICAL ASSISTANCE IN FORESTRY AND WATERSHED MANAGEMENT. THE PEOPLE SERVED WERE POOR FARMERS, MERCHANTS, AND HOUSEHOLDERS. ABOUT 7,500 INDIVIDUALS BENEFITTED DIRECTLY. THE NURSERIES' READILY AVAILABLE SOURCE OF FUELWOOD AND LUMBER HAS RESULTED IN A DIMINISHED EXPENDITURE OF TIME AND LABOR.

- IN THE CENTRAL AFRICA REPUBLIC (CAR): TWO AGRICULTURE VOLUNTEERS HAVE TRAINED ONE CENTRAL AFRICAN SUPERVISOR AND TWENTY-ONE EXTENSION AGENTS IN IMPROVED BEEKEEPING TECHNIQUES. THE EXTENSION EFFECT HAS INVOLVED OVER 5,000 FARMERS AND, AS A RESULT, HIGH QUALITY WAX PRODUCTION HAS INCREASED FROM 87 TO 107 TONS PER YEAR. BEESWAX IS POTENTIALLY VALUABLE EXPORT. IN THE PAST, BEESWAX WAS DISCARDED OR SOLD AT VERY LOW PRICES AND THE HONEY WAS UNDERUSED.

IN FISCAL YEAR 1987, PEACE CORPS WILL RECRUIT 1,070 VOLUNTEERS TO SERVE IN AFRICA. WE WILL CONTINUE TO PLACE VOLUNTEERS WHERE THEY CAN HAVE THE GREATEST EFFECT. THIS WILL MEAN A CONTINUOUS REVIEW OF OUR CURRENT PROGRAMS AND PRIORITY GIVEN TO ASSIGNMENTS WHERE VOLUNTEERS WILL SERVE AS CATALYST AND WHERE THEIR EFFORTS WILL HAVE A LASTING MULTIPLIER EFFECT.

INTER-AMERICA

PEACE CORPS CONTINUES TO EMPHASIZE THE INITIATIVE ON CENTRAL AMERICA (IFCA) PURSUANT TO THE RECOMMENDATIONS OF THE NATIONAL BIPARTISAN COMMISSION. IFCA ADDRESSED THE NEED FOR TEACHER TRAINING, EDUCATION, HEALTH, HOUSING, SMALL BUSINESS DEVELOPMENT IN BELIZE, GUATEMALA, HONDURAS, AND COSTA RICA.

A MAJOR PRIORITY IN BOTH OF THE CENTRAL AMERICA AND CARIBBEAN AREAS IS THE DEVELOPMENT OF AGRICULTURE AND OTHER BUSINESSES TO GENERATE INCOME, PROVIDE FOOD AND IMPROVED HEALTH AND NUTRITION, AND CREATE EMPLOYMENT.

OTHER VOLUNTEER PROJECTS IN THIS REGION INCLUDE, ENVIRONMENT EDUCATION AND MANAGEMENT, SANITATION AND INTRODUCING SIMPLE TECHNOLOGIES SUCH AS OBTAINING ENERGY FROM WIND, WATER OR SUNLIGHT.

VOLUNTEERS WORKING IN THE INTER-AMERICAN REGION ARE TRAINING THE PEOPLES OF THESE COUNTRIES TO FULLY REALIZE THEIR MOST VALUABLE RESOURCE--THEMSELVES.

THE IMPACT OUR VOLUNTEERS ARE HAVING IN THIS REGION CAN WELL BE DESCRIBED BY THE FOLLOWING EXAMPLES:

- IN GUATEMALA VOLUNTEER NURSES PERFORMED OVER 12,000 MEDICAL CONSULTATIONS, TRAINED OVER 500 HEALTH WORKERS, AND VACCINATED OVER 2,000 INDIVIDUALS.

- ONE PEACE CORPS VOLUNTEER HAS BEEN WORKING WITH 700 SMALL FARMERS IN COSTA RICA. THIS VOLUNTEER HAS HELPED THESE FARMERS ESTABLISH 25 PLANT NURSERIES FOR SPICES. IN THE SPRING OF THIS YEAR THESE FARMERS WILL HARVEST 70,000 TONS OF HIGH QUALITY TURMERIC. PEACE CORPS HAS BEEN WORKING WITH A U.S. SPICE COMPANY (MCCORMIC) IN IDENTIFYING SPICE DEMANDS. NEXT YEAR MCCORMICK WILL PURCHASE 100,000 TONS OF THE SPICE (TURMERIC) WHICH IS MORE IN DEMAND DUE TO INCREASED POPULARITY OF NATURAL VEGETABLE COLORING AND CURRY AND OTHER SIMILAR PRODUCTS.

- IN PARAGUAY, VOLUNTEERS WORKING IN HEALTH PROJECTS ADMINISTERED 22,000 VACCINATIONS, SUPERVISED THE CONSTRUCTION OF 400 LATRINES, AND INSTRUCTED 1,600 PERSONS IN ORAL REHYDRATION THERAPY.

- IN ECUADOR, HEALTH VOLUNTEERS HAVE AIDED OVER 2,000 FAMILIES IN 30 COMMUNITIES IN MATERNAL CHILD HEALTH CARE, VACCINATION CAMPAIGN, LATRINE CONSTRUCTION, FAMILY AND COMMUNITY GARDENING AND NUTRITION. INFANT MORTALITY HAS DECREASED AS MUCH AS 30 PERCENT IN SEVERAL AREAS.

- IN THE EASTERN CARIBBEAN REGION, 34 VOLUNTEERS TAUGHT 680 STUDENTS DIVERSIFIED SUBJECTS SUCH AS SCIENCE, MATH, SPANISH, BUSINESS EDUCATION, REMEDIAL READING, AUTO MECHANICS AND SPECIAL EDUCATION.

IN FISCAL YEAR 1987 PEACE CORPS WILL PLACE 680 NEW VOLUNTEERS IN THE INTER-AMERICA REGION. THE PROGRAM WILL CONTINUE TO CONCENTRATE IN THE RURAL AREAS WITH LITTLE OR NO ACCESS TO EDUCATION, HEALTH, OR TECHNICAL SERVICES. IN 1987 VOLUNTEERS WILL CONTINUE TO CONDUCT HEALTH, NUTRITION, AND SANITATION COURSES FOR RURAL MOTHERS AND TRAIN HOST COUNTRY COUNTERPARTS TO CARRY ON THIS WORK.

NORTH AFRICA, NEAR EAST, ASIA, AND PACIFIC
NANEAP

GREAT DIVERSITY IN DEVELOPMENT NEEDS EXISTS AMONG THE COUNTRIES IN THE NORTH AFRICA, NEAR EAST, ASIA AND PACIFIC (NANEAP) REGION. THEREFORE, OUR PROJECTS THERE CAN BE MORE COMPLEX AND HIGHLY TECHNICAL. CRITICAL NEEDS FOR THESE COUNTRIES INCLUDE EXPANDING AGRICULTURE PRODUCTION, INCREASING RURAL HEALTH SERVICES AND POTABLE WATER, EXPANDING SMALL BUSINESS OPPORTUNITIES, AND ENHANCING LITERACY AND PRACTICAL JOB SKILLS.

PEACE CORPS PROGRAMS IN THIS REGION ARE ALIGNED WITH EACH HOST COUNTRY GOVERNMENT'S DEVELOPMENT PRIORITIES. HOWEVER, PRIMARY PROGRAM EMPHASES ARE IN THE AREAS OF EDUCATION, AGRICULTURE, INCOME GENERATION, RURAL DEVELOPMENT, HEALTH EDUCATION, AND ENERGY.

LAST YEAR, 798 NEW VOLUNTEERS WERE ASSIGNED TO THE NANEAP REGION. IN FISCAL YEAR 1987 PEACE CORPS WILL RECRUIT 680 NEW VOLUNTEERS FOR SERVICE IN THIS AREA.

EARLIER IN MY TESTIMONY I GAVE YOU EXAMPLES OF OUR VOLUNTEER IMPACT WITHIN THE PHILIPPINE PROGRAM WHICH IS A PART OF THIS REGION.

IN FISCAL YEAR 1987 PROJECTS IN THE NANEAP REGION WILL CONTINUE TO EMPHASIZE THE INTEGRATION OF VOLUNTEER PLACEMENTS INTO HOST COUNTRY DEVELOPMENT PRIORITIES AND STRATEGIES.

THE FUTURE

AS PEACE CORPS EMERGES FROM A MILESTONE YEAR, OUR TWENTY-FIFTH ANNIVERSARY, WITH RENEWED CONFIDENCE IN OUR MISSION AND CONTINUED ADMINISTRATION AND CONGRESSIONAL SUPPORT, WE CAN SEE THE NEED THROUGHOUT THE DEVELOPING WORLD FOR CONTINUING THE PEACE CORPS PRESENCE. THE BASIC PROBLEMS WE ADDRESS STILL PERSIST: HUNGER AND MALNUTRITION, INFANT MORTALITY, POVERTY, ILLITERACY AND LIMITED EDUCATIONAL OPPORTUNITIES, AND INADEQUATE HEALTH CARE.

LITERALLY MILLIONS OF PEOPLE HAVE BEEN AFFECTED BY THE WORK OF PEACE CORPS VOLUNTEERS. MUCH MORE NEEDS TO BE DONE. AS I HAVE SAID OVER AND OVER AGAIN THESE PAST FIVE YEARS, NO QUICK FIX EXISTS FOR THE SERIOUS PROBLEMS AND CHALLENGES AFFECTING OVER HALF OF THE WORLD'S POPULATION. SOLVING THESE PROBLEMS IS A LONG-TERM PROCESS.

DEVELOPING COUNTRIES MUST RELY ON THEIR HUMAN RESOURCES TO ENSURE LONG-TERM SOLUTIONS TO THEIR PROBLEMS. PEACE CORPS VOLUNTEERS WILL CONTINUE TO PLAY A VITAL ROLE IN THIS EFFORT.

HOST COUNTRY GOVERNMENTS CONTINUE TO REQUEST MORE VOLUNTEERS THAN WE CAN PROVIDE. THE EFFECTIVENESS OF OUR VOLUNTEERS CONTINUES TO BE ENDORSED BY THE LEADERS OF THE DEVELOPING WORLD.

PEACE CORPS VOLUNTEERS IN THE NEXT TWENTY-FIVE YEARS WILL CONTINUE TO FORM THE TIES OF PEACE AND FRIENDSHIP BETWEEN OUR NATION AND THE OTHER PEOPLES LIVING IN WHAT IS RAPIDLY BECOMING A GLOBAL VILLAGE--OUR WORLD.

BUDGET REQUEST

PEACE CORPS IS REQUESTING $126.2 MILLION FOR FISCAL YEAR 1987. WE WILL RECRUIT APPROXIMATELY 2,600 NEW VOLUNTEERS AND SUPPORT APPROXIMATELY 5,000 VOLUNTEERS IN AFRICA, THE NANEAP REGION AND INTER-AMERICA. PEACE CORPS PLANS TO OPERATE IN 63 COUNTRIES.

IN FISCAL YEAR 1987 WE WILL CONTINUE TO OPERATE IN THE SPIRIT OF PARTNERSHIP AND BINATIONALISM. WE WILL ENSURE THAT PROJECTS NOT ONLY RESPOND TO THE CHANGING PRIORITIES AND BASIC NEEDS OF THE PEOPLE WE SERVE, BUT ALSO THAT PROJECTS ARE JOINTLY DEVELOPED, IMPLEMENTED AND SUPPORTED BY OUR HOST COUNTRIES.

PEACE CORPS WILL ALSO CONTINUE TO PLACE VOLUNTEERS WHERE THEY CAN HAVE THE GREATEST IMPACT. THIS WILL MEAN CONTINUOUS REVIEW OF CURRENT PROGRAMS. IN FISCAL YEAR 1987, PEACE CORPS WILL CONTINUE ITS INITIATIVES FOR THE CARIBBEAN BASIN, CENTRAL AND SOUTH AMERICAN ALTHOUGH THE RATE OF REPLACING VOLUNTEERS THERE WILL BE REDUCED.

OUR COLLABORATIVE EFFORTS WITH PUBLIC AND PRIVATE ORGANIZATIONS WILL BE INCREASED TO BETTER MEET THE PROGRAM NEEDS OF OUR VOLUNTEERS AND THE PEOPLE OF THE DEVELOPING NATIONS.

IN CONCLUSION

IN MY RECENT TRAVELS TO EVENTS HONORING PEACE CORPS TWENTY-FIFTH ANNIVERSARY, I FIND THAT WE ARE RECONNECTING WITH THOUSANDS OF RETURNED VOLUNTEERS. WE ARE

FINDING THAT MANY ARE LEADERS IN INDUSTRY, FINANCIAL INSTITUTIONS AND IN OUR NATIONS UNIVERSITIES--SOME AS YOU KNOW ARE LEADERS IN OUR NATION'S GOVERNMENT.

IN SEPTEMBER OF THIS YEAR THESE RETURNED VOLUNTEERS AND THOUSANDS MORE FROM ACROSS OUR NATION WILL COME TO WASHINGTON, D.C. FOR A TWO-DAY CONFERENCE AND REUNION. THIS EVENT WILL MARK THE CONCLUSION OF OUR YEAR-LONG TWENTY-FIFTH ANNIVERSARY CELEBRATION. HOWEVER, IT WILL ALSO MARK THE BEGINNING OF THE NEXT TWENTY-FIVE YEARS FOR THE PEACE CORPS. A PEACE CORPS THAT IS BETTER PREPARED TO MEET THE FUTURE CHALLENGES OF THE DEVELOPING WORLD.

IT HAS BEEN A PRIVILEGE FOR ME TO APPEAR BEFORE YOU. NOW IN MY FIFTH YEAR AS DIRECTOR OF THE PEACE CORPS, I AM MORE CONVINCED THAN EVER THAT PEACE CORPS IS ONE OF AMERICA'S GREATEST RESOURCES. PEACE CORPS VOLUNTEERS REPRESENT WHAT AMERICA STANDS FOR...A NATION OF COUNTLESS HUMAN BEINGS OF ALL AGES FROM ALL WALKS OF LIFE WILLING TO GIVE TWO YEARS OF THEIR LIVES TO HELP OTHERS HELP THEMSELVES.

Additional Committee Questions

(The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:)

Questions Submitted by Senator Kasten

SENATOR KASTEN:

How many Volunteers do you plan to place in the Africa Food Systems program in FY 87 and FY 88? Is this the same number you planned prior to GRH?

LORET MILLER RUPPE:

We plan to place 140 - 160 Volunteers in FY 87 and 180 Volunteers in FY 88 in the Africa Food Systems program. These are the same figures as planned prior to GRH because this program is a top priority with the Peace Corps.

SENATOR KASTEN:

What plans are being made by Peace Corps to increase its Africa Food Systems Initiative into other countries in FY 87-88? Earlier testimony advised that four new countries would be included in the Africa Food Program by FY 88, is this plan still on schedule?

LORET MILLER RUPPE:

The Peace Corps is still planning to expand its Africa Food Initiative into four additional countries beginning in FY 88. However, budget will determine if the program will be expanded to the desired four or reduced to two.

SENATOR KASTEN:

How have your programs in the Philippines and Haiti been affected this year due to political events?

LORET MILLER RUPPE:

The Philippines

Peace Corps is responding to the needs of the new government of the Philippines. In an ongoing series of discussions with the Philippine Ministry of Foreign Affairs, Peace Corps/Philippines is in the process of negotiating a new working relationship with the Government

of the Philippines. Although our staff and Volunteers have been challenged by personnel changes on all levels of government as well as continuing civil unrest in several regions, the current government recognizes the unique resources that Peace Corps has to offer. Philippine Foreign Minister Salvador Laurel has been recently quoted as saying, "Now we need the Peace Corps more than ever." Peace Corps will continue to provide trained Volunteers to work in the rural areas at the village level. Agricultural production, for food and income, has been identified as a top development priority of the new government. The Peace Corps will assist in the revitalization of this critical sector.

Haiti

Aside from a brief hiatus in Volunteer work in the latter part of January and early February when Ministeries were closed or under popular attack, Peace Corps/Haiti's programs have continued unabated. If anything, under the new government, Peace Corps is taking on a more visible and expanded role in helping Haiti toward peaceful development progress through its projects. In concert with government development priorities, Peace Corps is pursuing expanded health and literacy programs.

SENATOR KASTEN:

What is Peace Corps doing relative to strengthening its Volunteer evacuation and emergency procedures?

LORET MILLER RUPPE:

The Peace Corps has established a special Security Task Force consisting of a team of executive managers that monitor and make recommendations to the Director of Peace Corps on security matters.

The Peace Corps is also working closely with State Department staff in continued discussions on security, both here and abroad. Each overseas post must have in place an emergency evacuation plan which must be fully coordinated with the Embassy to ensure consistency with Embassy plans. Regional Security Officers overseas have conducted numerous surveys of Peace Corps office buildings and residences, to identify needed security measures. Embassy security staffs serve as an advisory staff for the Peace Corps staffs overseas and are encouraged to assist in training of Volunteers in-country. The State Department has permitted Peace Corps staff to participate in security training at State, and has provided information materials for use in staff and volunteer training cycles. State also coordinates with Peace Corps on impacts of alternate carriers for international travel. They also work closely with Peace Corps both here and overseas to develop appropriate responses to individual situations as they occur.

SENATOR KASTEN:

You state in your justification material that "The needs of Central America will receive priority attention. However, lower levels of Volunteers will be maintained than originally planned under the Initiative for Central America." Would you explain these obviously contradictory statements? Obviously the Congress has been very supportive of the Peace Corps, appropriating more funds than requested by the Administration. In addition, supplemental funds were appropriated specifically for the Peace Corps program in Latin America. Why will there be lower levels of Volunteers than planned for Central America?

LORET MILLER RUPPE:

As originally projected, Peace Corps activity increased drastically during FY'85. Plans for increased participation in this area were predicated on three major factors:

- The availability of funds to maintain increased numbers of Volunteers for their two-year tours and to support the planned annual rate of increase;

- The ability of the Central American countries (Belize, Costa Rica, Guatemala, and Honduras) to effectively absorb increasing numbers of Volunteers in suitable projects, with appropriate support; and

- Peace Corps reentry into Panama.

The FY'84 supplemental appropriations given were utilized in the development of the operations plan for increasing the number of Volunteers in the Central American countries (Belize, Costa Rica, Guatemala, and Honduras). These plans were acted upon in FY'85 and 378 additional Trainees were placed in these countries; a net increase of 255 Volunteers above the FY'84 base-year numbers.

Central America does continue to be an area of great concern to Peace Corps. There have been major changes in the equation, however, which have created the need to revise the original plans:

- The deficit reduction provisions of 1985 (GRH);

- Limited ability of Central American Governments to meet increasing counterpart commitments;

- Geographic, demographic and political factors present in these countries, including expanding U.S. presence, which limit their capacity to quickly absorb a high annual rate of Volunteer increases;

- No invitation to reenter has been received from the Government of Panama, although efforts have continued to obtain such an invitation.

Of these changes, the most restrictive has been the deficit reduction provisions of 1985.

SENATOR KASTEN:

I noted from your congressional presentation document that you are continuing to expand the program in Haiti in FY 1987. I am certain that your plans for 1987 were made prior to the departure of "President for Life" Duvalier.

Do you anticipate any changes in your program for FY 1987? Have you consulted with the new government there to see if their evaluation of need has changed in any way?

Considering the unrest in that country, are the Volunteers there safe? Has Peace Corps/Washington sent anyone to that country recently to evaluate the situation?

LORET MILLER RUPPE:

Now, more than ever, Peace Corps is reaffirming its plans to expand the health sector to include rural health education, oral rehydration therapy, and child survival programs. Adult literacy remains a top program priority for FY'87. These programmatic goals were recently discussed with the new Haitian Ambassador to the U.S., Pierre Sam, who positively pointed out that the new government's development priorities are indeed the areas in which Peace Corps/Haiti focuses its efforts: agriculture, reforestation, health and child survival, and literacy. Our plans have not changed.

Throughout the political upheaval in January and February of this year, ensuring Volunteer safety has been Peace Corps' top priority. Thirty-four of the 42 Volunteers then serving Haiti were brought from sites in troubled secondary cities to Port-au-Prince. They were housed through the generosity of the American Mission with Embassy, AID, and Consular families. Eight Volunteers remained at their sites in calm, very rural areas. All Volunteers were in daily contact with Peace Corps staff throughout the disturbances. Since February 13, all Volunteers have been back at work at their usual sites.

It should be noted that Volunteers enjoy a very positive relationship with their Haitian counterparts. No anti-American sentiments were directed at Volunteers during the unrest; to the contrary, several instances of Haitians concerned about their Volunteer friends' well-being were reported.

The Washington Desk Officer happened to be present in Haiti throughout the period of unrest and assisted in the hour-by-hour monitoring of Volunteer safety. She continuously reported that an exemplary, effective effort was made regarding Volunteer security during the crisis. More recently in March, the Associate Director of International Operations visited Haiti to assess the program and he attests to the same.

SENATOR KASTEN:

We spoke in our hearings last year about your projections for Volunteers in Grenada. You said at that time you hoped to have 30 Volunteers in place by the end of 1985. Can you tell the Subcommittee how many Volunteers were actually sent to Grenada in 1985?

How many do you project for 1986? Can you give us some detail about your program in Grenada? What is the per capita income in Grenada at this time? What type of Volunteers have been requested by the Government of Grenada?

LORET MILLER RUPPE:

At the end of 1985, there were 33 Volunteers in Grenada, 20 of whom actually arrived in the country during that year. Eighteen additional Volunteers have been projected for 1986. By July 30, 1986, ten current Volunteers will have completed their service. We expect to maintain Volunteer levels at approximately 30.

In 1984, shortly after the rescue mission, the Government of Grenada experienced a sudden shortage in classroom teachers. Peace Corps supplied teachers to fill the gaps primarily in the areas of science, math, and language arts. Other early program assignments were in the areas of business advising and agriculture.

As the severe immediate shortages have abated, Peace Corp is shifting its program thrusts into longer-lasting efforts such as teacher training in special education, physical education, remedial reading and guidance counselling, primary health care in rural areas for disease prevention, SED initiatives to foster the entrepreneurial spirit through the Caribbean Basin Initiative. Future program areas beyond the current year are in youth development and employment training.

For 1985 in constant 1984 dollars, Grenada's per capita income was $900 U.S.

The Government of Grenada has requested nurses, teachers, agriculturalists, and marketing advisors.

SENATOR KASTEN:

Last year we spoke about safety considerations in the Peace Corps program in Guatemala. You said at the time that you were particularly concerned about the highlands, and a lack of support for the Volunteers.

Can you update us on that situation?

LORET MILLER RUPPE:

Ensuring the safety of Peace Corps Volunteers is of pri-

mary importance to us. We have been extremely cautious when placing volunteers in the Guatemalan Highlands. Before selecting a site, we consult with host country agency officials and local authorities to enlist their help in seeing that the volunteer be permitted to work safely and productively. If we receive a positive response, we discuss the proposed volunteer placement with the Regional Security Officer and the Embassy military attache. If the Embassy concurs with the placement, we then place the Volunteer. Through periodic field visits by staff, quarterly security meetings and agency meetings, we ensure that Volunteer concerns are addressed promptly.

We are receiving solid support from host country agencies for programming initiatives in the Highlands. Most areas of the Highlands are now considered open for placement of Peace Corps Volunteers, a significant change from last year. Currently, 16 Volunteers are serving in the Western Highlands working in 4-H projects, reforestation, soil conservation, fisheries, vegetable production and beekeeping. In May, we will be sending 12 more to serve as nutritionists, fisheries extensionists and soil conservationists.

SENATOR KASTEN:

It is a widely held view that a good portion of the problems with food production in Africa has been individual countries' policies regarding farmers and food prices. You are presently on the ground in four countries with the Africa Food System Initiative. I know it is too early to tell how successful this initiative will be, but can you give the Subcommittee an idea of the reaction of the host governments to the initiative? Do you see acceptance of change from past food policies?

LORET MILLER RUPPE:

Reaction of host governments to our Africa Food Systems Initiative has been one of support and sustained interest. Anecdotally, the Government of Zaire requested four times as many Peace Corps Volunteers in the Initiative as we are able to provide; the President of Mali is involved to the extent that he personnally designated a geographically remote and underserved area in his country as a beneficiary of the Initiative; and the Nigerien Ministry of Plan speaks of "le A.F.S.I." (Africa Food Systems Initiative) when describing a model for a village-based agriculture program. More seriously, the Initiative, like all Peace Corps programs, is being developed collaboratively with the host governments. Representatives of each government have participated in all phases of assessment and project design.

In each country, program development began with a thorough assessment of existing food systems to identify major micro-level constraints to increased food availability. These were then related to the broader macro-level con-

text. While focusing on the needs of the small farmer, Peace Corps is also in a position to participate in an ongoing dialogue with host government officials to underscore the relation between national policies and the responsiveness of food production and distribution systems.

Agreement on the need for policy reform is a relatively recent development. African governments are more receptive to policy reform. This has been in part due to changes in posture by many donors and a cognizance by Africans themselves of the direct link between existing micro-level policies and the lack of responsiveness of agricultural systems to agricultural programs. The receptivity to reform of food policy was one of the criteria used in the selection of the Initiative's four pilot countries. Aside from joining African nations in public proclamations for future strategies (Lagos Plan, OAU Conference of 1985), all four countries have embarked on bold programs of reform. This is evidenced in part by cereals market restructuring projects in Niger and Mali, new land tenure laws in Lesotho, and rescinding of certain official price controls in Zaire.

SENATOR KASTEN:

Your Guinea program plans for 1987 include an expansion of the secondary education program, primarily teaching English. In a country so improverished, are you satisfied with your projected program there? Is English teaching at the insistence of the Government of Guinea? Wouldn't Volunteers be put to better use in areas such as health care and primary education?

LORET MILLER RUPPE:

The Guinea Program for 1987 does include Secondary Education, with an emphasis on teaching English. Guinea is attempting to rebuild its entire education system. The reintroduction of international language into secondary and post-secondary curricula is given high priority by the present government. Under the former government, instruction in local Guinean languages was mandated. However, today, under the current curricula reform mandates, English has been designated as a second language and is obligatory at secondary schools. English language mastery is required in order to earn the bacculaureat. However, the present dearth of English language precludes both the teaching and testing of proficiency in the language.

Officials of the Ministry of Education of the Government of Guinea have demonstrated great enthusiasm for, and confidence in the ability of the Peace Corps to help resolve the complex problems confronting the nation's educational system and requested Peace Corps to assist them to meet their objectives.

However, Education is only one component of our program in Guinea. Other sectors of program concentration are in

reforestation and agriculture. Though not yet in a state of deforestation, the results of indiscriminate cutting of trees are already being felt. Also, farmers in various areas are having increasing difficulty in producing food and fuelwood, due to overcultivation and overgrazing. With regard to agriculture, there is an emphasis on Smallholders, which is another major priority of the Government of Guinea. We feel that Volunteers can be very useful in the Government's plan to introduce new methodologies and innovative approaches to technology transfer. We feel that Volunteers will be productively employed working at the village level. The placement of Volunteers in these sectors will certainly make a significant contribution to the country's development process.

This is the third occasion for Peace Corps to develop a program in Guinea. The enthusiasm and interest expressed by both the Peace Corps staff and the Host Country Nationals is noteworthy. As time progresses, the Government of Guinea will change its priorities. The Peace Corps program will continue to modify its direction to meet those changes.

SENATOR KASTEN:

I note in your justification material under Rwanda that Volunteers have been without Peace Corps staff since 1978, and are under the day-to-day management of the American Embassy. How many countries where Volunteers are fielded are without Peace Corps staff support? What kinds of problems can this create for Volunteers? I know that in most countries the Peace corps tries to maintain its autonomy. Are these Volunteers working without Peace Corps staff in country at a disadvantage?

LORET MILLER RUPPE:

Rwanda is presently the only Peace Corps Africa Region country without Peace Corps staff. From 1978 to 1983, Peace Corps Rwanda consisted primarily of three or four University English Professors who received preservice training in Zaire, attended in-service training in Zaire and who were visited periodically by Peace Corps Zaire staff.

The Volunteers' jobs were very structured and support was provided by the Rwandan Universities. Therefore, demands on Embassy personnel were manageable and consisted of mainly administrative support to order living allowance checks, prepare travel orders, etc. With the recent increase in the program's size and the diversification of project areas, demands on the Embassy staff have increased considerably. Embassy personnel no longer have the time to provide the indepth coverage required to support our program. Moreover, we feel that there are important reasons of institutional identity that make it desirable for Peace Crops to be administered separately.

It is for the above reasons that we have hired a consultant to explore the possibilities for program expansion and to recommed Peace Corps staffing and other requirements to support the program. We are very grateful for the support that has been provided by the Embassy in Rwanda, but it is impractical to continue this arrangement given the program's present size and potential for expansion.

SENATOR KASTEN:

You state in your congressional presentation document that some Peace Corps Volunteers, through the United Nations Volunteer Program, served in the People's Republic of China, among other countries.

Are these Volunteers still working primarily as English teachers?

LORET MILLER RUPPE:

There are currently 5 United Nation Volunteers in China, all of whom are teaching English. To date, China has only requested English teachers.

SENATOR KASTEN:

I am sure you share our concern about the safety of Peace Corps Volunteers worldwide. Recent events in the Philippines are further cause for concern. Since Volunteers in the Philippines are working on such projects as agroforestry, fisheries projects, and crop diversification, I can only assume most of these Volunteers are out in the countryside.

There is reason to be concerned about safety not only because of recent unrest because of the elections, but also about the communist guerrilla activities. What is being done to ensure safety of our Volunteers in the Philippines? What provisions are being made to evacuate Volunteers if the situation in the Philippines deteriorates even further?

LORET MILLER RUPPE:

There is no doubt that the Philippines is in a transitional period. The outcome of the recent elections and subsequent events culminating in the formation of a new government heightened U.S. media coverage of the Philippines. In addition, the recent American actions in Libya have caused the Muslims in the Philippines to pose threats against Americans.

The safety of Peace Corps Volunteers is of utmost concern to the Peace Corps and the U.S. Embassy in Manila.

The political situation in the Philippines is very closely monitored. Peace Corps/Philippines' professional

programming staff of 10 spends 50% of its time in the field visiting with volunteers and host country officials. Our staff members, both American and Filipino, are experienced and knowledgeable on the local conditions in the provinces. They personally check all potential Volunteer assignment sites and prepare a careful assessment of the peace and order situation for each site. The U.S. Embassy also works closely with the Peace Corps Country Director to insure that the sites where we have been requested to work are safe. All of our Volunteers' assignment sites are approved by the Embassy prior to Volunteer placement.

An evacuation plan is regularly reviewed during Peace Corps/Philippines staff meetings and between Peace Crops staff and the U.S. Embassy. Any individual Volunteer who perceives his/her own safety to be in question may leave the assignment site and come to Manila to speak to the Country Director.

Due to Muslim threats against Americans, a decision was made to evacuate all Peace Corps Volunteers from Muslim areas on the southern island of Mindanao. This was a precaution felt necessary because of implied retaliation against Americans, although Peace Corps Volunteers were not individually nor collectively singled out.

In other areas of the country there is no indication that "communist guerrilla activities" target Americans. Peace Corps Volunteers, because of their knowledge of the language and culture, become members of their respective communities and as such are known and respected. If ever there is an indication that there might be danger and they should leave their communities, they are informed to do so by their Filipino friends.

SENATOR KASTEN:

Can you give us some more information about "The English as a Foreign Language" (TEFL) program? I am interested in knowing why Peace Corps is so heavily involved in TEFL. So many of these countries are so poor, and basic needs so great, why do we emphasize English teaching in so many countries?

For instance, in one country, Sri Lanka, during 1985 and 1986 you list under Peace Corps accomplishments that 1,400 Sri Lankan students were trained in English, and that the first annual Delic Conference was organized and conducted which "Challenged...students to apply their knowledge of English in writing, debating and comprehension." And that in 1987 TEFL will be diversified, and new teacher training and English related projects implemented. Sri Lanka has a per capita income on $330 per year. It would seem that Sri Lanka's basic needs are not being addressed by this emphasis on English teaching.

Why has the Government of Tunisia decided "to make English

language instruction a priority"? You plan to reenter English language instruction--is this the best use of Volunteers in Tunisia?

LORET MILLER RUPPE:

A Peace Corps program in Sri Lanka was initiated for the third time at the direct request of President Jayewardene in January, 1983, after an absence of 14 years. A verbal agreement was reached during negotiations regarding the third entry of Peace Corps/Sri Lanka, that Peace Corps would only work in education, specifically English training programs, until the organization had successfully established its credibility.

The Government of Sri Lanka re-established English as a national language, and designated Sinhala and Tamil, the languages of the two ethnic groups on the island, as official languages. The Government of Sri Lanka views the teaching and study of English as vital to its development and modernizaiton efforts. The overwhelming reason for English expansion is that a growing segment of the Sri Lankan economy requires a working knowledge of English to conduct commercial transactions.

Peace Corps Volunteers are helping the Government of Sri Lanka in their efforts to upgrade the quality of English language skills on a national basis through the Ministry of Education's "District English Language Improvement Centers" (DELIC). Due to a severe shortage of qualified primary and secondary level English teachers, the Government asked Peace Corps to assist in training some of the estimated 8-9,000 prospective English teachers assigned to reintroduce English effectively into the school curriculum. Peace Corps Volunteers have not only been effective instructing English in the classroom, they have also conducted valuable teacher training workshops and post-graduate seminars for DELIC students who have begun teaching assignments. After completing the one year DELIC course, the graduates have been given paid teaching assignments near or in their home villages. The Peace Corps Volunteers' contribution to skill training has no doubt added to the DELIC graduates' employability.

It is felt by some in Sri Lanka that English can, and must, play the role of a "link" language between the Tamil and Sinhalese populations. Communal conflict founded upon a long history of socio-economic inequities and cultural differences has contributed to a downturn in Sri Lanka's economy. Improving English skills could help bridge the culture-gap by providing an avenue for communication between the two ethnic groups whose languages are mutually unintelligible. An ultimate reduction in ethnic conflict would benefit the entire country.

Peace Corps/Sri Lanka, in its third year, has diversified into agriculture and small business enterprise programs. Volunteers in the Mahaweli Integrated Development Project

are assisting low-income settlers in identifying, designing, and implementing income-generating projects.

The Government of Tunisia has decided "to make English language instruction a priority" as a result of its evaluation of its development needs and strategies. As a country committed to developing its internal resources, Tunisia feels the need to increase the knowledge of English among its doctors, engineers, agronomists, scientists, and teachers. As the international language of science, technology, and commerce, English is potentially one of Tunisia's most important development tools. It is not for Peace Corps to decide unilaterally what the "best use" of Volunteers is, but to assist by the placement of Volunteers in programs which are compatible with Peace Corps' goals and abilities. As Tunisia and other countries continue their development programs, they will be interested in Peace Corps volunteers' ability to teach and train. There are presently no firm plans to reenter English instruction in Tunisia, but Peace Corps is committed to continuous examination and assessment of programming and Volunteer placement in this area.

SENATOR KASTEN:

I am concerned by what appears to be an ever-expanding emphasis on photovoltaic projects. I see from your justification material under program history that Peace Corps has initiated programs in photovoltaics recently, and you have completed a demonstration photovoltaic unit during 1985/1986. We have spoken in the past about the Tunisia program. I am not convinced that photovoltaics are an efficient use of scarce funds.

LORET MILLER RUPPE:

In 1981, Peace Corps/Tunisia initiated a short-term (2 years) project in photovoltaics in collaboration with USAID, NASA, and the Tunisian electrical agency. Two volunteers worked with people from these agencies to develop a greenhouse utilizing photovoltaic power as a demonstration project on a model farm. Upon completion of the project, Volunteer participation ended. Peace Corps/Tunisia has had no further involvement with photovoltaic programs, although it is continuing other rural development projects.

SENATOR KASTEN:

I note with interest the project in the rehabilitation of an old and neglected hotel in Cameroon. You state in your justification material that Volunteers will train Cameroonians in business and hotel management. Is this a state-owned or privately owned hotel? How many Volunteers are working on this project? How many Cameroonians will be trained in business and hotel management? Are any Cameroonians being trained in the actual refurbishing of

the hotel? Does Cameroon do a big hotel or tourist business that could absorb these newly trained Cameroonians?

LORET MILLER RUPPE:

The hotel in Kribi at one time was a thriving enterprise situated near the beach. The plan as the Country Director in Cameroon conceptualized it, is to engage the Ministry of Tourism in taking over the hotel, which has been privately owned to date, and then joining with the Peace Corps to refurbish it.

The Cameroonian Government would fund the project in which Peace Corps would provide the technical expertise in construction, rehabilitation, restoration and management including skills transfer to other Cameroonians. The concept for this project came out of the stress being placed on boosting the tourist industry in Cameroon as was stated in the Cameroonian second five year plan. Rehabilitation of the hotel in Kribi was thought to fit nicely with other Government to Government and Government/private industry projects which already characterize many of our programs in Cameroon.

The project is still in the planning stages, so we are not yet certain how many Volunteers will be involved and how many Cameroonians will be trained. However, included in our initial thinking was cooperative program planning with volunteer agencies from other countries, so that the skills needed would be provided from a variety of sources.

SENATOR KASTEN:

I notice that you plan collaboration with the New York Zoological Society for a new wildlife preservation program in Gabon, and that last year Volunteers began work on a national game park in Sierra Leone. Is this a new direction for the Peace Corps in Africa--wildlife preservation and game parks?

What are the benefits for these types of programs?

LORET MILLER RUPPE:

Wildlife preservation and game park projects do not represent a major new direction or program emphasis in the Peace Corps/Africa strategy. Agriculture production and related projects provide the foundation for Africa's FY 86 and FY 87 programs, although the whole question of environment concerns must be addressed as we move toward the year 2000. At the present time, approximately 45% of the Volunteers in Africa are working in Education, 35% in food production and related areas and 15% in Health, with the remaining 5% working in a variety of other projects. Peace Corps plans to increase the percentage of Volunteers in the agriculture sector in FY 87.

The programs in the remaining five percent represent pro-

jects which, after careful planning and negotiation, have been found to be areas which directly support or complement the development needs and priorities of the country in which Peace Corps is working. One such area is programming in Wildlife and Game Parks.

Presently Peace Corps Sierra Leone has three Volunteers working with the Ministry of Agriculture and Natural Resources in the establishment and conservation of Sierra Leone's national parks. Peace Corps agreed to support the program as the National Park of Sierra Leone provides an outstanding opportunity for the country to increase employment and income generation through a growing tourist industry.

Early this year, Peace Corps Gabon's program staff held preliminary discussions with the New York Zoological Society to consider support for a Wildlife Preservation program. At the conclusion of the meeting, however, no commitment was made, and Peace Corps Gabon has no plans to program Volunteers in the area of Wildlife Preservation in the coming year.

SENATOR KASTEN:

How does Peace Corps propose to reach the goal of 10,000 Volunteers as provided in P.L. 99-83?

LORET MILLER RUPPE:

Based upon requests from host county governments where we currently have programs, and indications (or impressions) from host governments which would be interested in establishing new Peace Corps programs, we feel that the goal of a 10,000 Volunteer Peace corps could be achieved, resources permitting, through an orderly and phased build-up of Volunteer levels over the period of 1987 - 1992. We would achieve the 10,000 Volunteer level by adding approximately 300 - 500 new Volunteers per year over the next six years; since a Volunteer normally serves for two years, we estimate achieving a Volunteer level of approximately 10,050 by the end of the fiscal year in 1992.

Establishing and maintaining a Volunteer force of 10,000 would require more than doubling our annual trainee-input rate, with the largest increases occurring in Africa, (up 1850) followed by our North Africa, Near East, Asia and Pacific region (up 570), and our Inter-American region (up 280). Most of these Volunteers would serve in the agricultural and education program areas, with lesser increases in health, water, sanitation and small enterprise development. These estimates assume continuation of programs in the 63 countries where we currently serve, in addition to 12 new country entries (dependent, of course, on security issues and specific government skills requests at time of entry.

SENATOR KASTEN:

Given the current development and food production needs in the developing world, what could Peace Corps do with additional funding? What countries have requested Peace Corps programs that are not feasible under current budget constraints?

LORET MILLER RUPPE:

Our program plan of reaching a Volunteer force of 10,000 Volunteers by 1992 requires both increased funding and staffing to adequately recruit, train, and support these increases in the Volunteer force. The chart listed below indicates Volunteer increases and the estimated additional budget and staffing levels to assure adequate support.

	Fiscal Years **						
	1986	1987	1988	1989	1990	1991	1992
Trainee Input	2615	3171	3714	4233	4572	4890	5317
Volunteer Years	5103	4961	4999	5737	6571	7256	7830
Volunteers on Board - End of Year	6012	6108	6630	7686	8581	9307	10054
Budget Requirements ($ Millions)	124.4*	137.2	146.2	157.0	172.8	185.3	196.2
(FTE) Staffing Requirements	1039	1097	1168	1211	1269	1309	1318

Funding would increase by $72 million over existing levels and staffing by close to 300 full time equivalent staff years.

Simply stated, any funding increases would always be dedicated to increasing our overall level of development assistance through placement of additional trainees/ volunteers in the field.

Given current budget constraints, during the remainder of FY 86 and through the end of FY 87, Peace Corps will be able to enter, at most, two additional countries: Equatorial Guinea and Chile. While other countries have expressed interest, negotiations are at a very preliminary stage and do not represent likely new country entries by FY 87.

*Excludes 5.59 million sequestered (from a total appropriation of $130 million) as a result of GRH.

**Projected resource requirements are in constant dollars.

SENATOR KASTEN:

How have the reductions brought about by the Gramm-Rudman-Hollings (GRH) provisions affected Peace Corps programs worldwide? What is the outlook for FY 87 at levels below the authorized $130 million?

LORET MILLER RUPPE:

The FY 86 budget reductions of $5.6 million from the original $130 million authorized for FY 86 and FY 87 as required by Gramm-Rudman-Hollings (GRH) have necessitated a 24% reduction in the number of new trainees from 3400 to 2600. This substantial decrease is caused by: 1) the large number of Volunteers placed in the field during the two previous years and the absolute necessity to first and foremost provide them with adequate support before placing additional Volunteers, and 2) the continued uncertainty about funding levels in FY 87 makes us cautious about only placing those Volunteers that we are confident we can support. For FY 87, the President's request level of $126.2 million represents an increase of roughly $2 million from this years $124.4 million (post GRH) and we estimate that we would again be able to place approximately 2,600 trainees, with inflation/exchange rate increases absorbing most of the increased funding.

SENATOR KASTEN:

What would be the impact of a 7.7 percent reduction (below GRH levels) to Peace Corps programs?

LORET MILLER RUPPE:

A 7.7% reduction to the President's request level of $126.2 would result in $9.7 million reduction in budget authority and, on a unit cost basis, an approximate reduction of 500 new trainees. Because Peace Corps was able to field 3,400 new trainees in FY 85 and an estimated 2,600 in FY 86, the Volunteer-years of service would not be significantly reduced in FY 87. The reduction in Volunteer levels would be felt in FY 88 and FY 89.

	FY 87 Estimate	FY 87 Estimate-7.7% decrease
Budget Authority	126,200	116,500
Trainee Input	2,600	2,085
Volunteer Years	4,858	4,800

From a programmatic viewpoint, however, at a 2000-2100 trainee-input level (down from the 3400 in FY 85), we would have to examine the cost-effectiveness of our smaller programs (i.e., less than 50 Volunteers) and give serious consideration to possible country exists. Staffing levels, both overseas and in the United States, would also need careful review.

In FY 88, assuming an additional 7.7% reduction from $116.5 million, the Volunteer Years would fall from 4,800 to 4400 and the number of new Trainees would drop from 2,085 to 1500.

SENATOR KASTEN:

How has the deficit reduction provisions of 1985 (GRH) affected Peace Corps programs in Central America (The Peace Corps Initiative on Central America)? What is the anticipated level of new Volunteers going into Central America programs in FY 87? Compared to FY 86 and FY 85?

LORET MILLER RUPPE:

In 1985, 644 Trainees entered the Pace Corps programs. Of these, 378 were placed in identified program activities under the Initiative for Central America. These additional Trainees resulted in a net increase (after attrition) of 255 Volunteers above the base-year (FY 84) total of 710 Volunteers. Plans called for continuing to increase Peace Corps participation above the FY 84 level by placing approximately 300 Trainees per year through FY 88.

As stated earlier, the deficit reduction provisions of 1985 preclude the planned increase of Peace Corps participation in these countries through the Initiative. The increases planned for FY 86 were modified downward to reflect the cuts necessary to meet the first reduction deadline. The reductions called for the decrease of incoming Trainees from a planned 508 Trainees to 294, resulting in a net increase of only 162 Volunteers above the FY 84 base-year total. The reduction below planned levels will be greater in FY 87.

The anticipated level of new Volunteers going into Central America programs for FY 87 is 293. The completion of service of the Volunteers who entered in FY 85, coupled with reduced number of trainees in FY 86 and FY 87, result in a net loss of 171 Volunteers from the base-year Volunteer level of 710. This loss represents Central America's equitable share of agency-wide reductions in Peace Corps programs internationally.

Rising costs resulting from the depreciation of the U.S. dollar and the need to absorb some of the support costs previously provided by Host Country agencies, results in a de facto reduction of the Peace Corps presence in these countries, even though the projected budget allocation will be equivalent to FY 86's.

SENATOR KASTEN:

If Volunteer levels are being reduced, are they being reduced equally in all Regions, or are some Regions being affected more than others? If so, why?

LORET MILLER RUPPE:

In order to attempt to equalize the adverse effects of the FY 86 Gramm-Rudman-Hollings on our three geographic regions, the Agency has generally applied across-the-board reductions to overseas operations, which has had varying effect on the three regions, primarily as a result of the number of Volunteers placed in FY 84-85 who must continue to be supported in FY 86. Thus, the Africa and Inter-America regions, which both forecast considerable 1986 increases in the number of "Volunteer-years" to be supported (6% and 17%, respectively) are also experiencing the greatest decrease in the number of new Volunteers to be placed (a 270 reduction of trainee-input for Africa and a 446 reduction for Inter-America). The North Africa, Near East, Asia, and Pacific Region, however, is forecasting an overall decrease (-7.8%) in the number of Volunteer-years to be supported in FY 86, so it is experiencing the smallest reduction in the number of new trainees (118 reduction).

SENATOR KASTEN:

Relative to your Africa Food Systems Initiative, why did Peace Corps delay initiating the program in Niger (the 4th pilot country) until FY 87, when it was to begin in FY 86?

LORET MILLER RUPPE:

The reduced funding prompted by the Gramm-Rudman-Hollings legislation resulted in Peace Corps having to delay initiating our planned Africa Food program in Niger until FY 87.

SENATOR KASTEN:

In FY 86 how many Volunteers were you initially planning to place in the Africa Food Program? How many do you now plan to place? Why?

LORET MILLER RUPPE:

In FY 86 the Peace Corps planned to field 158 Volunteers for the Africa Food Initiative. Effects of the funding reductions resulting from Gramm-Rudman-Hollings will result in Peace Corps placing about 108 Volunteers this year.

Questions Submitted by Senator DeConcini

SENATOR DECONCINI:

With respect to control and management of funds, how does the Peace Corps assure itself that appropriate procedures are followed concerning the validity and documentation of

Peace Corps obligations overseas? Overall, how would you rate adherence overseas to existing funds control procedures? Please provide information or examples of any significant funds control problems overseas and corrective measures taken.

LORET MILLER RUPPE:

The Peace Corps contracts with the Department of State's Foreign Affairs Administrative Support System (FAAS) to provide among other services, accounting support services to our overseas posts. Peace Corps posts submit approved obligating documents to the certifying officer in the local embassy for review of appropriateness of the costs and certification of fund availability.

The Peace Corps maintains a budget advice system wherein each overseas post is authorized an annual budget, apportioned by quarter. These annual budgets are carefully monitored both by the Peace Corps post and the headquarters administrative staff, as well as by the Department of State's local embassy Budget & Fiscal Officer or the Regional Budget and Fiscal Offices (RBFO's) to ensure that an over-obligation/over-expenditure of funds does not occur. Moreover, as a second level of review to ensure effective fund management, each quarter, operating plans and budgets are reviewed and adjusted, where necessary, to reflect current program and operating needs at each post.

Overall, I would rate our adherence to fund control procedures as good to very good. We do, however, schedule regular audits overseas to ensure that established procedures are followed and that any irregularities are promptly reported and corrected.

SENATOR DECONCINI:

What new countries are you planning to enter with the current expansion plans?

LORET MILLER RUPPE:

Due to earlier commitments the Peace Corps plans to enter Equatorial Guinea in FY 86.

With the effect of Gramm-Rudman-Hollings and the reduced funding levels in FY 87, Peace Corps is currently planning no new country entries. However, just recently at the invitation of Chilean government officials and with the backing of U.S. Ambassador Harry Barnes we are exploring the possibility of reentering Chile. Volunteers could provide valuable assistance in the areas of small business development, special education, integrated rural development (education, health, and hygiene), and small scale fisheries. Keeping in mind that budgetary levels are not known for FY 87, we will be sending a working group to Chile the week of May 19 to meet with Chilean officials to explore further the possibility of reentry.

OFFICE OF INSPECTOR GENERAL

OPERATING EXPENSE BUDGET

Senator KASTEN. General, you have presented testimony before this subcommittee in the past. This is the first time that you, or for that matter any inspector general of the agency has appeared to justify your own operating expense budget, which is now a separate line item in the budget as a result of congressional action last year.

We welcome you here today. Before we begin, I would like to ask if Senator DeConcini has an opening statement or a comment that he would like to make.

Senator DECONCINI. I have no opening statement, Mr. Chairman. Thank you.

INTRODUCTION OF WITNESS

Senator KASTEN. General, we welcome you. Your full statement, as well as the statements of other witnesses, will be inserted in the record in full, and we would encourage you to summarize your oral presentation so that we will have more time for questions.

General, welcome to the committee.

General BECKINGTON. Thank you, Mr. Chairman.

I will summarize. I am accompanied by Mr. James D. Durnil, who is doubled hatted as the Deputy Inspector General, and the Assistant Inspector General for Audit.

BUDGET REQUEST

The fiscal year 1987 request for IG operations for AID is $21.7 million, and that essentially straightlines the fiscal year 1986 appropriation of $21.05 million. In practical terms, that means that we will continue to operate in 1987, if this request is approved, at essentially the same level as we are in the current year.

OPERATIONAL RESULTS

Those levels have resulted in the past year in what we have identified as economy and efficiency savings of $102 million, and recommended recoveries or deobligations of $23 million. In addition, during this past year, the Agency, acting on earlier audit reports, has sustained a total of $37 million in recoveries and obligations.

These dollar figures are reckoned using the President's Council for Integrity and Efficiency standards that apply to all Federal Inspectors General.

SHIFT IN AUDIT FOCUS

We have shifted the balance of our audit oversight so that we now have a somewhat heavier emphasis today than in the past on what we call program and functional audits. In the process, for example, during the past year, we have identified some serious management weaknesses in my judgment in the Agency's important participant training program, further weaknesses that I think have operated to the detriment of the Agency operations in the use of the exchange rate factors in a number

of foreign countries, problems with the Agency support of international agricultural research centers of which there are 12 or 13 around the world, and problems in the execution by the Agency of the renewable energy projects as a result of congressional action in 1977 at the height of the fuel oil crisis in that timeframe.

DELAY IN USE OF NONFEDERAL AUDITORS

I have planned to rely heavily on non-Federal audits as a means of strengthening and reinforcing the work of our own audit and investigative staff. Unfortunately, we have not been able to make available on a quick basis the funding necessary to support such an effort.

The use of non-Federal auditors by Federal departments, particularly the domestic departments of our Government, is something of long standing. We have only begun to use it in the foreign aid program in AID. Audit work is a legitimate program expense, Mr. Chairman, and what we will be doing, as an agency, over the next 2 or 3 years, is working the legitimate costs of auditing into the budgets of the individual programs and projects of the Agency. Given the design and planning cycle for the Agency, it probably means that we are a couple of years or so away from realizing the measurable impact of that kind of additional support.

INVESTIGATIVE AND SECURITY RESPONSIBILITIES

The Inspector General of AID has responsibility in two other areas besides that of audit: investigations and security. The investigations aspect of my responsibilities is going forward, I think, reasonably well, with quite good effectiveness. The final area, security, is a responsibility unique in the IG community to the Inspector General of AID. I need not tell the subcommittee that this is a subject of intense interest and a great deal of activity in the foreign affairs community, and here in the Congress.

Last month, the other body passed a Diplomatic Security Act, which if finally enacted will require major changes in overseas security operations and procedures, and a new organization for security at State. Precisely how all of this will eventually impact upon AID security requirements and responsibilities is not now entirely clear.

In the meantime, the budget request I am submitting today continues minimum funding for a small AID security effort at the current level. In the current circumstances, in a very dangerous world, I think this is an absolutely bare bones security request. Until the administration's other overseas security initiatives are finally resolved by enactment of ongoing legislation, and the direct impact on AID is clear, I believe that my request here is a reasonable one to make.

Thank you, Mr. Chairman. This concludes my summary.

[The prepared statement of General Beckington follows:]

PREPARED STATEMENT OF HERBERT L. BECKINGTON

INSPECTOR GENERAL

AGENCY FOR INTERNATIONAL DEVELOPMENT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO APPEAR BEFORE YOU TODAY TO DISCUSS THE FISCAL YEAR 1987 BUDGET REQUESTS FOR THE OPERATING EXPENSES OF THE A.I.D. OFFICE OF INSPECTOR GENERAL. WITH ME TODAY IS MR. JAMES B. DURNIL, DEPUTY AND ASSISTANT INSPECTOR GENERAL FOR AUDIT.

THE FY 87 REQUEST FOR IG OPERATIONS, $21.7 MILLION, ESSENTIALLY STRAIGHT LINES THE FY 86 APPROPRIATION OF $21.05 MILLION. THE DIFFERENCE OF $650,000 IS THE BUDGET ALLOWANCE FOR INFLATION. THE REQUEST WILL PERMIT CONTINUATION OF IG AUDIT AND INVESTIGATIVE OVERSIGHT PLUS A VERY LIMITED SECURITY PROGRAM AT PRESENT LEVELS.

WHAT DOES THE PHRASE "PRESENT LEVELS" MEAN IN PRACTICAL TERMS? IN THE YEAR ENDING MARCH 31, THE IG ISSUED 218 AUDIT REPORTS, INTERNAL AND EXTERNAL, WHICH OVERALL IDENTIFIED ECONOMY AND EFFICIENCY SAVINGS OF $102 MILLION AND RECOMMENDED RECOVERY OR DEOBLIGATION OF $23 MILLION. DURING THE YEAR THE AGENCY REACHED DETERMINATIONS ON PRIOR YEARS' AUDITS AND SUSTAINED A TOTAL OF $37 MILLION IN RECOVERIES AND DEOBLIGATIONS. IN ACHIEVING THESE RESULTS THE IG AUDIT OVERSIGHT ENCOMPASSED ONLY ABOUT ONE-FOURTH OF THE TOTAL FLOW OF AMERICAN FOREIGN AID DOLLARS ADMINISTERED BY MY AGENCY. PUT ANOTHER WAY, ABOUT THREE-FOURTHS OF U.S. BILATERAL ECONOMIC AID IS NOT INCLUDED IN THE IG'S AUDIT OVERSIGHT. THIS HAS BEEN THE PATTERN FOR SEVERAL YEARS NOW.

I AM PLEASED TO BE ABLE TO REPORT TO THE SUBCOMMITTEE IN MY TESTIMONY THIS YEAR THAT THE LEVEL OF PROFESSIONALISM OF THE INSPECTOR GENERAL STAFF AT A.I.D. IS THE HIGHEST I HAVE EXPERIENCED. WE HAVE AN AUDIT AND INVESTIGATIVE STRATEGY IN PLACE, A DETAILED AUDIT WORKLOAD ASSESSMENT WHICH I BELIEVE IS A MODEL OF ITS KIND AND A DETAILED AUDIT PLAN WHICH IS REVIEWED AND UP DATED AT SIX-MONTH INTERVALS.

WE HAVE OVER THE PAST YEAR SHIFTED THE BALANCE OF OUR AUDIT OVERSIGHT TO INCLUDE A HEAVIER EMPHASIS THAN IN THE PAST ON

WHAT WE CALL PROGRAM AND FUNCTIONAL AUDITS AS OPPOSED TO INDIVIDUAL PROJECT AND FINANCIAL/COMPLIANCE TYPE AUDITS. WE NOW HAVE A MORE EVEN MIX OF THE THREE TYPES.

DURING THE PAST YEAR AS A RESULT OF SOME OF OUR PROGRAM WORK, WE HAVE IDENTIFIED SERIOUS MANAGEMENT WEAKNESSES IN THE AGENCY'S IMPORTANT PARTICIPANT TRAINING PROGRAM--A PROGRAM WHICH IS BEING SUBSTANTIALLY EXPANDED.

WE HAVE IDENTIFIED WHAT I HAVE TERMED CONFUSION AND DIFFERING PRACTICES IN THE APPLICATION OF FOREIGN EXCHANGE RATES BY THE AGENCY TO THE DETRIMENT OF AGENCY OPERATIONS IN A NUMBER OF COUNTRIES. I AM PLEASED TO REPORT, BY THE WAY, THAT AS A RESULT OF THIS WORK, THE AGENCY IS MOVING TO CORRECT THE PROBLEMS.

EVEN THOUGH INTERNATIONAL AGRICULTURAL RESEARCH CENTERS CONTINUE TO DEVELOP NEW TECHNOLOGIES FOR THE SMALL FARMER, WE IDENTIFIED PROBLEMS IN THE AGENCY'S LONG-STANDING SUPPORT OF THIS PROGRAM. CONSEQUENTLY, THE INTENDED IMPACT OF OUR SUPPORT DIMINISHED OVER A PERIOD OF YEARS.. LAST YEAR ALONE, THE AGENCY PROVIDED $45 MILLION TO SUPPORT THE 13 INTERNATIONAL RESEARCH CENTERS.

AS A RESULT OF THE WORLDWIDE ENERGY CRISIS A.I.D. INITIATED SEVERAL RENEWABLE ENERGY PROJECTS TO MEET THE ENERGY NEEDS OF THE RURAL POOR. SINCE 1978, A TOTAL OF $170 MILLION HAS BEEN PROVIDED BY A.I.D. TO DEVELOP INEXPENSIVE RENEWABLE ENERGY TECHNOLOGIES FOR THE RURAL POOR. OUR AUDIT FOUND THAT THESE PROJECTS WERE SELDOM INTEGRATED WITH DEVELOPMENT EFFORTS; OFTEN EXPENSIVE TO BUILD, USE AND MAINTAIN; AND TOO COMPLEX TO BE RESPONSIVE TO THE NEEDS OF THE RURAL POOR.

IN SHIFTING THE BALANCE OF OUR INTERNAL AUDIT WORK TO INCLUDE GREATER ATTENTION TO PROGRAM AND FUNCTIONAL SYSTEMS AUDITS, I HAVE PLANNED TO RELY UPON AN EXPANDED USE OF NON-FEDERAL AUDITORS TO REINFORCE AND EXPAND FINANCIAL AND COMPLIANCE AUDITS. THE INSPECTOR GENERAL ACT OF 1978 CONTEMPLATES THIS INITIATIVE AND PRESCRIBES THE RESPONSIBILITIES OF THE IG IN SUPERVISING THIS ACTIVITY. OUR DOMESTIC DEPARTMENTS HAVE MADE SUBSTANTIAL USE OF THIS AUTHORITY. WITH THE BULK OF A.I.D.'S OPERATIONS GOING FORWARD IN LESSER DEVELOPED COUNTRIES, WE HAVE ENCOUNTERED PROBLEMS PROBABLY UNIQUE TO A.I.D. IN THE USE OF NON-FEDERAL AUDITORS. WE HAVE, I BELIEVE, MADE SUBSTANTIAL

PROGRESS IN RESOLVING THEM. FUNDING, HOWEVER, HAS BEEN A PROBLEM. AUDIT WORK IS A LEGITIMATE AND VERY NECESSARY PROGRAM EXPENSE. AUDIT FUNDING, BUILT INTO A PROJECT BUDGET, MUST BE A RECOGNIZED PART OF PROJECT PLANNING ON A WORLDWIDE BASIS; AND GIVEN THE PLANNING AND PROGRAM CYCLE THIS MEANS WE ARE PROBABLY 2-3 YEARS AWAY FROM REALIZING THE FULL POTENTIAL OF THIS PROCESS FOR SAVINGS AND THE ENFORCEMENT OF FISCAL INTEGRITY. A PLAN TO ALLOCATE PROGRAM FUNDING AT THE A.I.D./WASHINGTON LEVEL HAD TO BE ABANDONED IN THE FACE OF COMPETING AND HIGHER PROGRAM PRIORITIES.

THE IG HAS RESPONSIBILITY IN TWO OTHER AREAS BESIDES THAT OF AUDIT--INVESTIGATIONS AND SECURITY. THE INVESTIGATIVE FUNCTION IS ESSENTIALLY ONE OF FEDERAL CRIMINAL INVESTIGATION. WE HAVE 24 PROFESSIONAL CRIMINAL INVESTIGATORS TO CARRY OUT THIS TASK IN SUPPORT OF A.I.D.'S WORLDWIDE ACTIVITIES. I MIGHT NOTE HERE THAT THIS AGAIN IS A COMMONLY-UNDERSTOOD FUNCTION IN OUR GOVERNMENT WHICH PRESENTS, IN THE A.I.D. CONTEXT, UNIQUE PRACTICAL DIFFICULTIES. THE WRIT OF THE UNITED STATES DOES NOT ORDINARILY RUN IN ANOTHER SOVEREIGN COUNTRY, FOR EXAMPLE; SOME INVESTIGATIVE TOOLS SUCH AS THE IG SUBPOENA ARE WITHOUT FORCE. NEVERTHELESS, IN SPITE OF THESE KINDS OF IMPEDIMENTS, OUR INVESTIGATIVE EFFORTS AS REPORTED IN OUR LAST TWO SEMI-ANNUAL REPORTS TO THE CONGRESS HAVE RESULTED IN OVER $11 MILLION DOLLARS OF RECOVERIES, FINES, DEOBLIGATIONS OR SAVINGS; 19 CRIMINAL CONVICTIONS; 57 ADMINISTRATIVE ACTIONS SUCH AS TERMINATION OF EMPLOYMENT, SUSPENSIONS AND REPRIMANDS AND AN INCREASING NUMBER OF REFERRALS OF CASES TO THE DEPARTMENT OF JUSTICE. ADDITIONALLY, THE ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS HAS AN ACTIVE AND AGGRESSIVE PROGRAM OF TRAINING PRESENTATIONS WITHIN THE AGENCY ON SUCH SUBJECTS AS METHODS TO DETECT AND COMBAT FRAUD, AND THE RECOGNITION AND AVOIDANCE OF POTENTIAL CONFLICT OF INTEREST SITUATIONS BY CONTRACTING OFFICERS, PROJECT AND PROGRAM OFFICERS AND OTHERS.

IN SUMMARY, THE VERY SMALL GROUP OF CRIMINAL INVESTIGATORS CARRYING OUT INVESTIGATIVE OVERSIGHT OF A.I.D. ACTIVITIES DIVERSE AND COMPLEX IN SCOPE OVER THREE-QUARTERS OF THE GLOBE ARE PERFORMING WELL AND HAVING A POSITIVE IMPACT ON PROTECTING THE INTEGRITY OF OUR PROGRAMS.

THE FINAL AREA OF A.I.D. IG RESPONSIBILITY IS THAT OF SECURITY. I NEED NOT TELL THE SUBCOMMITTEE THAT THIS IS A SUBJECT OF INTENSE INTEREST AND A GREAT DEAL OF ACTIVITY IN THE FOREIGN AFFAIRS COMMUNITY AND HERE IN THE CONGRESS. LAST MONTH THE OTHER BODY PASSED THE DIPLOMATIC SECURITY ACT WHICH IF FINALLY ENACTED WILL REQUIRE MAJOR CHANGES IN OVERSEAS SECURITY OPERATIONS AND PROCEDURES AND A NEW ORGANIZATION FOR SECURITY AT STATE. THE BILL ALSO AUTHORIZES ADDITIONAL SUBSTANTIAL FUNDING FOR SECURITY PURPOSES. PRECISELY HOW ALL OF THIS WILL EVENTUALLY IMPACT UPON A.I.D.'S SECURITY REQUIREMENTS AND RESPONSIBILITIES IS NOT NOW ENTIRELY CLEAR.

IN THE MEANTIME, THE BUDGET REQUEST I AM SUBMITTING TODAY CONTINUES THE MINIMUM FUNDING FOR A SMALL A.I.D. SECURITY EFFORT AT THE CURRENT LEVEL. IT WILL PROVIDE FOR A CONTINUATION OF THE SMALL SECURITY GROUP OF 21 PEOPLE, THE CONDUCT OF BACKGROUND INVESTIGATIONS OF APPLICANTS FOR THE AGENCY'S FOREIGN SERVICE, THE PROGRAM OF UPDATING SECURITY CLEARANCES FOR AGENCY EMPLOYEES ALREADY ON THE ROLLS AND A SMALL AMOUNT, $1.6 MILLION, FOR PHYSICAL SECURITY ENHANCEMENT AT A.I.D. OVERSEAS POSTS. IN THE CURRENT CIRCUMSTANCES IN A DANGEROUS WORLD THIS IS AN ABSOLUTELY BARE BONES SECURITY REQUEST IN MY JUDGMENT. UNTIL THE ADMINISTRATION'S OTHER OVERSEAS SECURITY INITIATIVES ARE FINALLY RESOLVED BY ENACTMENT OF ONGOING LEGISLATION AND THE DIRECT IMPACT ON A.I.D. IS CLEAR, I BELIEVE IT IS A REASONABLE POSITION FOR US TO TAKE.

THANK YOU MR. CHAIRMAN. THIS CONCLUDES MY PREPARED STATEMENT.

IMPLEMENTATION OF IG SEPARATE BUDGET

Senator KASTEN. General, we thank you. You have been operating separately now for several months, and I guess it is probably too early to give a good assessment of what difference this can make to your operations. We would be interested, nonetheless, in your telling us how so far you have perceived this difference. Has it been helpful to you, to your inspectors, and to your overall operation? Have there been any particular problems that your different status might have created?

General BECKINGTON. In answer to your first question, Mr. Chairman, it has been helpful. What it has done basically is enhance the independence of the Inspector General.

In answer to your second question, we have had no unusual problems so far. As you would expect, we have been working out modalities of how we coordinate with the Comptroller of the Agency, and the management side of the Agency. This has been going forward very smoothly and very well on the whole, with no unusual problems.

Senator KASTEN. I have a couple of additional questions, but let me turn first to Senator DeConcini.

ABUSES IN PUBLIC LAW 480 PROGRAM IN SOMALIA

Senator DECONCINI. Thank you, Mr. Chairman.

General, in reading your testimony, I see that you are diligently working on internal auditing and investigations, and security within the Agency for International Development.

My question is in regard to Public Law 480 assistance to Somalia, and it involves all of the responsibilities that you have.

In 1980, GAO noted problems in famine relief, specifically in title II food donation programs, and in the title I sale program. Regarding the emergency program, the commodities were inadequately stored, sold to the military, and the local currency proceeds were not deposited in a timely fashion in the special account in accordance with the previous agreements.

GAO reported that in March 1984, Somalia Government officials sold 2,500 metric tons of title II World Food Program of wheat flour for considerably less than its market value to friends, who resold it for profit. The Inspector General issued a review 2 years prior to the GAO report.

It seems to me that this program is of a continuing nature. Have you followed up on the report, and what actions have been pursued, and what are the results?

General BECKINGTON. Let me turn to Mr. Durnil, who is familiar with these matters.

Mr. DURNIL. Sir, just last week, this matter was brought before one of the committees here. The IG's office did the audit originally. GAO went back and did basically a followup, which repeated the IG's findings.

Just last week, we instructed our office out of Nairobi, Kenya, to do a followup audit on the Somalia problem, and I will be glad to furnish you with a copy of the status of the recommendations as soon as that audit is completed. We anticipate that it will be completed in 3 to 4 months

Yes, the problem that you cited as far as the title II were correct. They were found by us and also by GAO.

Senator DECONCINI. Do you think that they have been corrected, or do you have any way of knowing that?

Mr. DURNIL. I have no way of knowing at this time, sir.

Senator DECONCINI. Do you agree with the GAO recommendations that the program ought to be audited.

Mr. DURNIL. Yes, that was in the response.

CONTINUING AUDIT PROGRAM IN SOMALIA

Senator DECONCINI. Is the procedure there to continue auditing after this audit?

General BECKINGTON. Yes.

Senator DECONCINI. Is that part of your recommendations?

General BECKINGTON. Somalia has been a concern to us for a period of time, Senator. We do try to keep an eye on that program, particularly the food programs. We have had in the past, as you may recall, somewhat similar problems in some of the refugee related programs, where large quantities of food stuffs and relief supplies were moved into Somalia. I am speaking there of 1981–82 period.

Senator DECONCINI. I think that it is so important that we put an end to that, if we possibly can, because there is nothing that will turn people more than to read these horror stories.

I assume you agree that there is a solution to this, and that we can stop this misuse?

General BECKINGTON. I don't know that we can stop it. This is my personal judgment, Senator. I don't know that we will ever, in some of these countries, completely bring a halt to these kinds of problems. But we certainly can, between the efforts of the Inspector General, the efforts of the AID Mission in the country, and the Washington bureaus, reduce them, I would think, to an absolute minimum. It is not easy, and it takes a tremendous amount of effort and oversight, and careful continuing attention.

ETHIOPIAN FAMINE

Senator DECONCINI. Did you do any inspecting and auditing for the Ethiopian famine?

General BECKINGTON. We have not so far. The GAO has been in briefly, I believe.

Senator DECONCINI. When you say, you are not sure that we can solve this, this is of great concern to me. It would be interesting to know whether or not the PVO distributors in a country like Ethiopia have done any better than the AID in Somalia.

General BECKINGTON. Generally speaking, Senator, we carry out these activities, we, the Agency, using PVO's as our agents, or cooperating sponsors.

Senator DECONCINI. AID does.

General BECKINGTON. AID does. AID, generally speaking, carries out directly relatively little, or the smaller part of the whole program year by year. So we are very dependent, as an Agency, upon the PVO's.

Senator DECONCINI. This 1984 incident in Somalia, some 2,500 metric tons of title II World Food Program wheat flour being sold at less than market, was that the PVO or AID?

General BECKINGTON. From what you just read, Senator, it sounds like it was the World Food Program, and not an AID direct involvement as a result, either directly by us or one of the PVO's that work with us.

ABUSES OF PUBLIC LAW 480 PROGRAM IN HAITI

Senator DECONCINI. It is very hard to explain to anybody, the good things that this country does, and this 2,500 metric tons were sold below market to friends who reaped a profit.

There have been press reports indicating that the flour mills in Haiti had to provide kickbacks to the Duvalier family on every bushel of Public Law 480 wheat they handled. Did AID know about, and if so, what did you do and what did they do? What can be done to prevent this in Haiti or other countries?

General BECKINGTON. I do know about this particular report. To the best of my memory, Senator, we picked up that press report 2 or 3 weeks ago, as I recall, in the New York Times. I have had an investigator in Haiti, in Port-au-Prince, within the past 10 days. As a matter of fact, he left there the day before yesterday, and we have the Deputy Director of our Latin American Regional Office in Honduras in there today.

I am not in a position to be very responsive precisely to your question at the moment.

Senator DECONCINI. How long do you plan on having them down there?

General BECKINGTON. They will be there as long as necessary to determine what the facts and circumstances of this situation are. Whatever those may turn out to be, of course, we will recommend corrective action.

ESF FUNDS IN EL SALVADOR

Senator DECONCINI. Can you explain the quick disbursement method of ESF moneys in El Salvador? I understand that these are designed to prevent capital flight from countries, and it requires a separate account to control it. How do we account for the spending?

General BECKINGTON. I am not sure I know the answer to that question precisely.

Mr. DURNIL. Unless it would be under the CIP Program in El Salvador.

Senator DECONCINI. Yes.

Mr. DURNIL. The price checking unit there in the Central Bank.

Senator DECONCINI. How do we monitor that?

Mr. DURNIL. Our office just completed an audit of this program. They have a price checking unit in the Central Bank that samples and verifies the transactions that are attributed to the program. They have to be certified by the bank. There are several requirements, in addition to capital flight, that would be source and origin, the verification of the prices, through a sampling process, an automated process that just became operational within the last year. I can furnish you with a copy of the audit report.

We found it to be working very well currently. There were some problems originally.

Senator DECONCINI. Do we rely on the bank checking those prices?

Mr. DURNIL. The bank has a unit that does it. Yes, it has to be certified by the mission. Reports go to the mission.

Senator DECONCINI. How long have we been doing that?

Mr. DURNIL. I will have to give you the audit report. The best I can recall, sir, the automated system that was developed by Arthur Young

has just become operational this past year, and the audit report that we just completed just looked at the current operation. I will have to check to see how long that has been in process.

Senator DECONCINI. Are you satisfied that it is under control now?

Mr. DURNIL. At the current time, yes, sir.

General BECKINGTON. This is the area, Senator, that was of such concern about 2½ to 3 years ago, both in my reporting and the GAO reporting. We found serious problems. We found this bank checking unit that Mr. Durnil just mentioned to be seriously undermanned and unqualified to do the job that they were to do, and that he has just described.

It is as a result of that reporting, and those findings in that timeframe, that the whole process has been improved. The price checking unit, as I recall, has gone from 3 to something like 12 people. They are, we believe, more qualified to do their work. The AID Mission in El Salvador is tied in much more tightly with it.

AUDITING OF BANK PROCEDURES

Senator DECONCINI. You audited the bank procedures?

Mr. DURNIL. Yes, we have. It is not perfect either, as in any normal environment that you work in down there. There were a lot of expenditures that were supposed to have been certified independently by the superintendent of the bank that weren't. We verified from the source, the importers.

We think that the system is good once it is fully in place. We could not find at this current time any significant abuses.

Senator DECONCINI. Any significant abuses?

Mr. Durnil. Yes.

Senator DECONCINI. Is that process used any place else, besides El Salvador?

General BECKINGTON. I believe it is in one or two other places.

Senator DECONCINI. Can you supply me, for the record, the countries and how long they have been using it?

Mr. DURNIL. Yes, and also a copy of the audit report.

Senator DECONCINI. Thank you

Thank you, Mr. Chairman. I have other questions which I will submit for the record.

Senator KASTEN. Thank you Senator.

[The information follows:]

ESF PRICE CHECKING UNITS

COUNTRY	DATE ESTABLISHED
El Salvador	Late 1982
Costa Rica	Early 1985
Jamaica	Early 1985

AUDIT OF
PRIVATE SECTOR SUPPORT PROGRAM AND
P.L. 480 LOCAL CURRENCY GENERATIONS
USAID/EL SALVADOR

AUDIT REPORT NO. 1-519-85-13
SEPTEMBER 26, 1985

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

September 26, 1985

MEMORANDUM

TO : Mr. Robin Gomez, Director, USAID/El Salvador

FROM : RIG/A/T, Coinage N. Gothard, Jr.

Subject : Audit Report No. 1-519-85-13, "Audit of Private Sector Support Program and P.L. 480 Local Currency Generations, USAID/El Salvador"

Attached for your information and use are five copies of the subject audit.

The purpose of the audit of the private sector support program was to determine: (a) progress towards achieving program objectives, (b) Government of El Salvador (GOES) compliance with conditions of the ESF grant agreement and memorandums of understanding, and (c) weaknesses in USAID/El Salvador and GOES management that might impede the efficient and effective implementation of the program. We also reviewed USAID/El Salvador and GOES controls over the use

of P.L. 480 local currency generations which the USAID has monitored under the private sector support program.

The program has made significant progress in helping to stabilize the Salvadoran economy. The decline in the real Gross Domestic Product which started in 1979 was arrested in 1983 and a positive growth rate of 1.5 percent was achieved in 1984.

Except as noted below, GOES compliance with provisions of the program agreements has been satisfactory. The GOES did not comply with eleven provisions. However, they were unable to comply with some of the provisions because of unrealistic assumptions or insufficient resources. Other provisions were complied with or were being corrected prior to the publication of this report.

At the beginning of our audit, we noted that USAID/El Salvador's management of the program was fragmented and that a centralized monitoring procedure had not been established to adequately document and verify GOES compliance with the various provisions in the program agreements. We believe that these internal control weaknesses led to the submission of incomplete information to AID/Washington to satisfy a congressional reporting requirement dealing with the degree of GOES compliance with ESF and P.L. 480 local currency provisions. Prior to the issuance of this report, USAID/El Salvador had corrected these reporting and management inadequancies.

USAID/El Salvador and GOES needed to improve the attribution of import transactions to AID disbursements. Our tests detected that USAID/El Salvador accepted a significant number of ineligible import transactions for attribution. USAID/El Salvador and the GOES corrected these problems prior to the publication of this report.

We confirmed that the Central Bank needed to further improve the management of its Department of International Prices to more effectively identify overpricing of imports and underpricing of exports in order to help deter capital flight. Since USAID/El Salvador had corrected or was taking adequate corrective action in these areas through its Contractor, Arthur Young and Co., our recommendations were closed upon publication of this report.

We found certain control problems in the use of the ESF and P.L. 480 local currencies. These problems were corrected prior to the publication of this report. Except as noted above, internal controls over the ESF and P.L. 480 local currencies were satisfactory. Over the life of the program USAID/El Salvador has made numerous improvements in these controls.

All eleven recommendations contained in this report are closed upon publication because of corrective actions taken by USAID/El Salvador.

EXECUTIVE SUMMARY

The Office of the Regional Inspector General for Audit in Tegucigalpa, Honduras made an audit of the Private Sector Support Program in El Salvador. The objectives of our audit were to determine (a) progress towards achieving program objectives, (b) Government of El Salvador (GOES) compliance with conditions of the grant agreement and memorandums of understanding, and (c) weaknesses in USAID/El Salvador and GOES management that might impede the efficient and effective implementation of the program. We also reviewed USAID and GOES controls over the use of P.L. 480 local currency generations which have been monitored by the USAID under the Private Sector Support Program. This was our third audit of the program covering activities from January 1, 1983 through December 31, 1984.

Because of a sharp decline in the Salvadoran economy caused by the civil war, AID and the GOES agreed, in December 1980, to implement a Private Sector Support Program to be financed with Economic Support Funds (ESF). The objectives of the program were to ameliorate El Salvador's balance-of-payments crisis, to strengthen the private sector by providing foreign exchange resources for the importation of essential commodities, and to help restore economic stability. By December 31, 1984 AID had obligated $429.9 million under this program of which $399.9 million had been disbursed to the GOES. AID's Private Sector Support Program has been successful in helping to stabilize the Salvadoran economy. The decline in real economic growth which started in 1979 was arrested in 1983. In 1984 an estimated positive growth rate of 1.5 percent was achieved.

USAID/El Salvador has placed certain conditions on its assistance provided under the Private Sector Support Program in order to improve the performance of the economy, to obtain GOES compliance with requirements of other AID programs, and to require the Central Bank to establish and improve the operation of a system to verify the prices of imports and exports in order to deter capital flight through the overpricing of imports and underpricing of exports.

U.S. dollar funds under this program were made available to the GOES as cash transfers. In turn, the GOES was to make available an equivalent amount of foreign exchange within 12 months of the date of each disbursement in order to permit raw materials, intermediate goods, spare parts, agricultural inputs and capital goods to be imported from the United States by the private sector. To monitor compliance with this and other provisions, the GOES agreed to prepare reports on its attribution of eligible import transactions to AID financing. Another condition of the program was that the GOES would make available local currency in amounts at least equivalent to the dollar funds disbursed for purposes mutually agreeable to both governments.

At the beginning of our audit, we noted that USAID/El Salvador's management of the program was fragmented and that a centralized monitoring procedure had not been established to adequately document and verify compliance by the GOES with the various provisions in the program agreements. Prior to the issuance of this report, USAID/El Salvador had corrected these inadequacies.

Many ineligible import transactions were attributed to AID disbursements made in 1982 because of inadequate selection procedures. The Central Bank is now improving its procedures in order to avoid past attribution deficiencies.

Our review confirmed the findings of USAID/El Salvador and Arthur Young and Co. that further improvements were needed in the price-checking system established by the Central Bank to prevent the overpricing of imports and the underpricing of exports, and so to help deter capital flight. USAID/El Salvador has been in the process of assisting the GOES Central Bank to correct these deficiencies for some time now through a contract with Arthur Young and Co. The USAID advised us that they do not believe that capital flight through over/under invoicing is currently a problem as evidenced by Central Bank balance of payment data and corroborated by other observations (e.g., return of wealthy citizens) which indicated disminution or elimination of capital flight starting in 1983.

The ESF grant agreement and Memoranda of Understanding (MOU) were also used as tools to help monitor the use of local currency funds generated from the sale of P.L. 480 commodities under separate P.L. 480 agreements and MOUs. The ESF MOUs incorporate the P.L. 480 MOUs by reference. Since 1980, P.L. 480 agreements and MOUs led to the shipment of commodities worth $152 million.

Our review disclosed a few deficiencies in the management of P.L. 480 and ESF local currencies. Specifically, the GOES' sales agents (banks) had not promptly deposited the proceeds from the sale of P.L. 480 commodities into GOES special accounts and they had retained interest earned on credit sales; the Central Election Council had used some ESF counterpart funds for ineligible purposes; and ESF and P.L. 480 local currency bank accounts had not been reconciled.

Another aspect of our review dealt with GOES compliance with the terms and conditions of its agreements with AID. When Congress passed the FY 1985 AID Continuing Resolution, it placed a requirement on the Agency to make periodic reports on GOES compliance with the local currency provisions of the program agreement. We compared the report that USAID/El Salvador made to AID/Washington in November 1984 with the results of our audit and found that, whereas the Mission had reported only one area of non-compliance, in our opinion, at that time, the GOES had not fully complied in five areas. In April 1985, USAID/El Salvador added mention of those five areas in its report to AID/W on GOES compliance with the FY85 program. In our opinion, this addendum to its most recent report accurately reflected the degree of non-compliance with the local currency provisions of the 1984 Memorandum of Understanding. In most cases, the GOES had been unable to comply because of unrealistic assumptions or insufficient resources.

In addition, we found six areas not subject to the statutory reporting requirement in which the GOES had not achieved compliance. Prior to the issuance of the report, USAID/El Salvador obtained GOES compliance with five of those provisions and had started action to obtain compliance with another.

Overall, GOES internal controls were found to be adequate except as noted above. Since the inception of the program in 1980, USAID/El Salvador and the GOES have made many improvements in internal controls and others are in the process of being implemented.

We held an Exit Conference with USAID/El Salvador on May 2 and 3, 1985 to obtain their comments on our audit findings. Our draft report was submitted to the USAID on June 21, 1985 and they provided written comments to the draft report on August 23, 1985. Prior to the publication of this report, we considered all comments made by USAID/El Salvador. Their written comments to our draft report are included as Appendix 1.

In general, USAID/El Salvador agreed with our audit report. We made numerous changes in the report based on their comments. Where we did not agree with their comments, we have included their comments as well as ours in the appropriate section of the report.

All eleven recommendations included in this report are closed upon publication because of corrective actions taken by USAID/El Salvador on our audit findings and draft report; also, three of the recommendations were closed because USAID/El Salvador had identified the problems and was taking adequate corrective action.

Office of the Inspector General

AUDIT OF
PRIVATE SECTOR SUPPORT PROGRAM
USAID/EL SALVADOR
PART I - INTRODUCTION

A. Background

Beginning in 1979, El Salvador experienced a sharp decline in economic activity because of political instability caused by kidnappings, factory take-overs, bombings, and terrorism. This led to a deterioration of the country's domestic resources and foreign exchange position. By the end of 1980, the Gross Domestic Product had dropped by 10.5 percent and net international reserves by $304 million to a negative balance of $69.9 million.

In response to this situation, AID and the GOES agreed, in December 1980, to implement a Private Sector Support Program to be financed with Economic Support Funds (ESF). The objectives of the program were to ameliorate El Salvador's balance-of-payments crisis; to strengthen the private sector by providing foreign exchange resources for the importation of essential commodities, and to help restore economic stability.

By December 31, 1984 AID had obligated $429.9 million under this program of which $399.9 million had been disbursed to the GOES. The program was both grant and loan financed. The grant portion of the program included the original grant plus ten ammendments for a total of $405 million. The loan portion consisted of one loan for $24.9 million.

The status of these cash transfers as of December 31, 1984 was, (in millions of U.S. dollars):

	Obligated		Disbursed	
Private Sector Support I	Date	Amount	Date	Amount
Grant (519-0267)				
Original Grant	12/17/80	$20.0	12/19/80	$20.0
Amendment No. 2	03/26/82	20.0		
Amendment No. 3	06/15/82	5.0	07/01/82	25.0
Amendment No. 4	09/22/82	75.0	09/28/82	75.0
Amendment No. 5	12/17/82	39.6	02/09/83	19.6
			03/29/83	20.0
Amendment No. 6	05/11/83	42.4	05/13/83	25.0
			05/31/83	17.4
Amendment No. 7	07/29/83	38.0	10/18/83	20.0
			12/02/83	18.0
Amendment No. 8	01/23/84	25.0	03/29/84	25.0
Amendment No. 9	06/15/84	75.0	08/03/84	50.0
			11/10/84	25.0
Amendment No. 10	12/15/84	65.0	12/31/84	35.0
Total Grants		$405.0		$375.0
Private Sector Support II				
Loan (519-K-030)	07/21/81	$24.9	07/31/81	$24.9
Grand Total		$429.9		$399.9

One provision for the use of the dollar funds was that the GOES make available within 12 months from the date of each disbursement an equivalent amount of foreign exchange to import from the United States raw materials, intermediate goods, spare parts, agricultural inputs and capital goods for the private sector. To monitor compliance with this provision, the USAID required the GOES to report on the import transactions attributed to AID financing.

Another condition of the dollar disbursements was that the GOES would make available local currency in an amount at least equivalent to the dollar funds disbursed to be used for purposes as agreed to by the two governments.

The ESF local currency made available in 1980 and 1981 ($44.9 million) was tied to specific project uses. Starting in 1982 and continuing through 1983, the ESF local currency made available ($220 million) was not tied to specific project uses. Instead the Ministry of Finance agreed to include in its regular budget by specific budget line items an equivalent amount of funds for priority programs as negotiated with AID. (colones, the local currency of El Salvador, have been converted to dollars at the rate of 2.5 colones per dollar throughout the report).

In 1984, part of the local currency ($10 million) was made available to the Ministry of Planning for specific project uses. The balance ($90 million) was made available to the Ministry of Finance to finance specific budget line items in priority areas as was done in 1982 and 1983. In 1984 the Ministry of Finance was not required to attribute funds to its budget as was done in 1982 and 1983. Instead the local currency generations were to be deposited into a special acount to be expended on specific budget line items.

The USAID has also used the ESF grant agreements to help budget and control the use of local currency sales proceeds generated under separate PL 480 agreements.

Through 1984, those agreements totalled $152,001,000:

Year	Title	Amount ($000)
1980	I	$ 2,880
1981	I	24,500
1982	I	19,900
1983	I	39,000
1983	II 1/	16,721
1984	I	49,000
Total		$152,001

1/ Section 206

The Ministry of Planning manages the P.L. 480 local currency generations. These funds have been budgeted for specific uses based on action plans submitted by other government agencies and approved by the Ministry of Planning. The USAID advised us that they concur in the approval of some plans. These plans have been used in AID priority areas to finance (1) GOES counterpart for AID and other donor projects and (2) separate GOES programs.

Starting in 1983, the Ministry of Planning was given greater control over the use of these funds to expedite their use. In April 1983, the National Assembly passed legislation creating the Technical Secretariat for External Financing (SETEFE), with a special checking account and authority to budget and order disbursement of funds from external sources to all agencies specifically listed in the legislation. Those agencies include all the organizations receiving P.L. 480-generated funds.

The USAID has also placed conditions upon assistance provided under the private sector support program in order to: (1) obtain changes in GOES policies and so to improve the performance of the economy (2) increase the supply of credit available to the private sector (3) obtain GOES compliance with requirements of other AID programs (4) encourage GOES negotiation of a new agreement with the International Monetary Fund, and (5) require the Central Bank to establish and improve the operation of a price-checking unit to detect and control improper pricing practices that could contribute to capital flight.

B. Audit Objectives and Scope

This is our third audit of the private sector support program. It covered the period from January 1, 1983 through December 31, 1984.

The first audit of the program (Report No. 1-519-82-5 dated January 20, 1982) questioned whether the GOES should use AID funds to guarantee lines of credit since the procedures did not provide immediate balance-of-payments impact. It also questioned whether local currency funds should be tied to specific projects since project monitoring had overburdened the small USAID/El Salvador staff. Moreover, the report pointed out the need for the GOES to implement a planned price-checking system for import transactions, and to improve the management of two local currency funds established under the program. The report made five recommendations. All recommendations have now been closed.

The second audit of the program (Report No. 1-519-83-8 dated April 20, 1983) disclosed that the program had appeared to slow the decline in real economic growth. It also disclosed that improvements were needed in the price-checking unit, GOES reporting procedures and definition of the credit expansion targets. That report contained two recommendations which have been closed.

This review was made at the request of the AID Deputy Administrator.

The purpose of the current audit was to determine: (a) progress towards achieving program objectives, (b) GOES compliance with conditions of the grant agreement and memorandums of understanding, and (c) weaknesses in USAID and GOES management that might impede the efficient and effective implementation of the program. We also reviewed USAID and GOES controls over the use of P.L. 480 local currency generations which have been monitored by the USAID under the private sector support program.

The audit was performed in accordance with U.S. Government auditing standards. Accordingly, it included a review of the records of the USAID, the GOES, certain importers, as well as interviews with officials from those organizations. We randomly sampled 79 import transactions attributed to AID financing by the GOES and approved by the USAID to verify that the transactions complied with established criteria. We obtained confirmatory evidence by reviewing transaction files at the Central Bank, visiting Salvadoran importers, and corresponding with U.S. exporters.

AUDIT OF
PRIVATE SECTOR SUPPORT PROGRAM
USAID/EL SALVADOR
PART II - RESULTS OF AUDIT

The purpose of the audit of the private sector support program was to determine: (a) progress towards achieving program objectives, (b) GOES compliance with conditions of the ESF grant agreement and Memorandums of Understanding, and (c) weaknesses in USAID/El Salvador and GOES management that might impede the efficient and effective implementation of the program. We also reviewed USAID/El Salvador and GOES controls over the use of P.L. 480 local currency generations which the USAID has monitored under the private sector support program.

The program has made significant progress in helping to stabilize the Salvadoran economy. The decline in the real Gross Domestic Product which started in 1979 was arrested in 1983 and a positive growth rate of 1.5 percent was achieved in 1984 (see page 56).

Except as noted below, GOES compliance with provisions of the program agreements has been satisfactory. The GOES did not comply with eleven provisions. However, they were unable to comply with some of the provisions because of unrealistic assumptions or insufficient resources. Other provisions were complied with or were being corrected prior to the publication of this report (see page 54).

At the beginning of our audit, we noted that USAID/El Salvador's management of the program was fragmented and that a centralized monitoring procedure had not been established to adequately document and verify GOES compliance with the various provisions in the program agreements. We believe that these internal control weaknesses led to the submission of incomplete information to AID/Washington to satisfy a congressional reporting requirement dealing with the degree of GOES compliance with ESF and P.L. 480 local currency provisions (see page 54). Prior to the issuance of this report, USAID/El Salvador had corrected these reporting and management inadequacies.

USAID/El Salvador and GOES needed to improve their attribution of import transactions to AID disbursements. Our tests detected that USAID/El Salvador accepted a significant number of ineligible import transactions for attribution. USAID/El Salvador and the GOES corrected these problems prior to the publication of this report (see page 7).

We confirmed that the Central Bank needed to further improve the management of its Department of International Prices to more effectively identify overpricing of imports and underpricing of exports in order to help deter capital flight. Since USAID/El Salvador had corrected or was taking adequate corrective action on these problems through its contractor, Arthur Young and Co., our recommendations were closed upon the publication of the report (see page 43).

We found a few control problems over the use of the ESF and P.L. 480 local currencies (see page 33). These problems were corrected prior to the publication of this report. Except as noted above, internal controls over the ESF and P.L. 480 local currencies were satisfactory. Over the life of the program USAID/El Salvador has made numerous improvements in these controls.

All eleven recommendations contained in this report are closed upon publication because of corrective actions taken by USAID/El Salvador. However, in the not-too-distant future, we plan to follow-up on some of these closed audit recommendations.

A. Deficiencies in Past Attribution of Dollar Transfers

The deficiencies described in this section of the report were generally known to USAID/El Salvador. Moreover the Mission and its contractor, Arthur Young

and Co., have been at work for some time to devise an automated system that would effectively correct the deficiencies described in this report for future cash transfer programs. However, the terms and conditions of past ESF transfer agreements/covenants between AID and the GOES have not been fully complied with to date and corrective actions recommended in this report are needed to achieve that compliance.

1. Past Attribution Deficiencies

The USAID has accepted many ineligible import transactions for final attribution against $100 million transferred to the GOES in 1982 under Amendments 2, 3 and 4 to the Grant Agreement. The Central Bank, with USAID support and assistance, is now improving its procedures for selecting transactions for attribution in order to avoid past deficiencies. The Grant Agreement and AID Implementation Letters set forth the specific criteria to qualify import transactions for attribution against U.S. dollars disbursed to the GOES. These criteria were source, origin, import period, merchandise categories, type of industry, FOB value, documentation and certification by the Superintendent of Banks.

The attribution process is the mechanism by which AID is assured that its assistance is accurately linked to the purchase of imports meeting specified criteria. The grant agreement as amended provided that, over a period of 12 months from the date of each dollar disbursement, the GOES would make available to the private sector an equal amount of foreign exchange for the importation of raw materials, intermediate goods, spare parts, agricultural inputs and capital goods from the United States. The eligible private sub-sectors were manufacturing, agribusiness, commerce, transportation and energy. In addition, program implementation letters specified that FOB values should be used for attribution, commodities should be of U.S. source and origin, files should be maintained at the Central Bank to support each transaction, and only completed transactions (goods imported into El Salvador) should be accepted for final attribution. The implementation letters also provided that the Central Bank should report eligible transactions to the USAID for approval and that those transactions should be certified by the Superintendent of Banks.

As of December 31, 1984, $375 million had been disbursed under the grant since the inception of the program in 1980. The Central Bank had submitted $241.9 million worth of transactions for attribution to the grant of which the USAID had approved $115.5 million and was reviewing $126.4 million.

Our findings are based mainly on a randomly selected sample of 79 transactions out of 5116 transactions attributed to $75 million disbursed to the GOES in 1982 under Amendment No. 4 of the Grant Agreement. The results of our sample and a description of the procedures used are shown in Exhibit 1 of this report. The sampling technique we used produced results that can only be used to project the number of transactions not complying with established criteria.

It cannot be used to project dollar values. Certain findings are also based on reviews done by the USAID/Controller and the Superintendent of Banks of El Salvador prior to our audit.

Below we summarize the individual attribution deficiencies found during our audit (these deficiencies are discussed in more detail starting on page 15 of this report).

	Page No.	Description
I.		$25 million disbursed under Amendments 2 and 3
	10	The GOES still needs to submit $3,433,122 in ineligible transactions (because of USAID disallowances) to fully attribute the $25 million disbursed under Amendments 2 and 3

II $75 million disbursed under Amendment No. 4

10 The GOES still needs to submit $1,609,789 in eligible transactions (because of USAID disallowances) to fully attribute the $75 million disbursed under Amendment No. 4.

15 An estimated 37.9 percent of the transactions accepted by the USAID were not eligible for attribution because they did not comply with one or more of the grant criteria for import period, type of commodity, industrial subsector, U.S. source, U.S. origin and financing by the GOES (see Exhibit 1).

25 An estimated 19 percent of the transactions were not accepted at the required FOB value (see Exhibit 1).

12 Documentation required to support an estimated 83.5 percent of accepted transactions could not be found in Central Bank files (see Exhibit 1).

23 $4,465,239 in transactions were accepted for attribution twice (the USAID had already disallowed $4,419,297 of these duplicate transactions).

27 $39,452,621 in transactions were not certified by the Superintendent of Banks.

To correct these past attribution deficiencies, we believe the USAID and the Central Bank should review all transactions accepted for attribution to AID disbursements under Amendment 4 to the Grant Agreement and disallow any ineligible transactions. In the event that the Central Bank is unable to provide enough substitute transactions to fully attribute AID disbursements under Amendments 2, 3 and 4, then the USAID will have to determine what remedies are available to correct the problem.

Recommendation No. 1

We recommend that USAID/El Salvador:

(a) determine the eligibility of all transactions accepted for final attribution to the AID disbursement under Amendment No. 4 to the Grant Agreement and disallow any ineligible transactions.

(b) in the event that the Central Bank is unable to provide enough substitute transactions to fully attribute AID disbursements under Amendments 2, 3 and 4 of the Grant Agreement, then the USAID in consultation with appropriate legal counsel, should determine what remedies are available to correct the problem.

Action Taken by USAID/El Salvador to Close Recommendation No. 1

This recommendation is closed upon publication of this report because of actions taken by USAID/El Salvador on our audit findings and draft audit report. The USAID contracted Arthur Young and Co. to review and determine the eligibility of transactions on file at the Central Bank in order to fully attribute Amendments 2, 3, and 4 to the Grant Agreement. The Arthur Young and Co. report dated August 15, 1985 contained a listing of 3302 transactions for $100,012,589 which were deemed eligible for attribution to Amendments 2, 3, and 4. In addition, they found 190 eligible transactions for $3.3 million in excess of attribution needs.

Arthur Young and Co. used some eligibility criteria that were different than those used by the AID auditors. On June 5, 1985 (after we finished our review

but before Arthur Young and Co. started theirs) USAID/El Salvador issued Implementation letter No. 32 to change some of the eligibility criteria retroactive to Amendment 3. By issuing this letter, USAID/El Salvador has, in effect, "changed the rules of the game" by eliminating the United States origin requirement and accepting CIF instead of FOB values for imported commodities retroactively. This action increased the number and value (cost of goods plus insurance and freight) of transactions available for attribution. As a matter of principle, we find it difficult to condone this device for the same reason we would object to granting a retroactive waiver of AID's source/origin requirements for commodities financed directly by AID. At the same time, however, we realize that the matters under discussion in this section are historical in nature and that no useful purpose would be served in bringing this deficiency to the attention of the GOES at this time. Moreover, the Mission and the GOES have taken steps to preclude that shortfalls of this nature recur in future cash transfer programs. Consequently, while we have closed our audit recommendation, we have added this deficiency to our list of areas of non-compliance.

2. AID Disbursements under Amendments 2, 3, and 4 to the Grant Agreement Were Not Fully Attributed to Import Transactions

AID disbursements of $100 million under Amendments 2, 3 and 4 to the Grant Agreement were not fully attributed to import transactions as of December 31, 1984. Implementation Letter No. 22 provided that the attribution process should be completed 18 months after the date of each AID disbursement. This was not done because the USAID disallowed some transactions and the Central Bank has not submitted substitute transactions as requested. The USAID should ensure substitute transactions are submitted in a timely manner so that eligible import transactions can be fully attributed to AID disbursements.

Recommendation No. 2

We recommend that USAID/El Salvador obtain from the Central Bank $5,042,911 in eligible import transactions in order to complete its attribution to AID disbursements under Amendments 2, 3 and 4 of the Grant Agreement.

Action Taken by USAID/El Salvador to Close Recommendation No. 2

This recommendation is closed upon publication of this report because of corrective actions taken by USAID/El Salvador on our audit findings and draft audit report. The USAID contracted Arthur Young and Co. to review and determine the eligibility of transactions on file at the Central Bank in order to fully attribute Amendments 2, 3, and 4 to the Grant Agreement. The Arthur Young and Co. report dated August 15, 1985 contained a listing of 3302 transactions for $100,012,589 which were deemed eligible for attribution to Amendments 2, 3, and 4. In addition, they found 190 eligible transactions for $3.3 million in excess of attribution needs.

Discussion

An additional $5,042,911 in eligible import transactions are needed to fully attribute AID disbursements under Amendments 2, 3 and 4 of the Grant Agreement as of December 31, 1984. The status of cash tranfers and related attributions as of December 31, 1984 were:

Amendment	Date of A.I.D. Disburse-ments	Due Date for Sub-mission of Transactions	Amount of A.I.D. Disburse-ments	Amount of Attributions Approved	Lacking	
2 & 3	07/01/82	01/01/84	$ 25,000,000	$21,566,878	$3,433,122	
4	09/28/82	03/28/84	75,000,000	73,390,211	1,609,789	
			$100,000,000	$94,957,089	$5,042,911	2/

2/ The value of transactions previously disallowed ($5,380,135) had exceeded the value of transactions needed to fully attribute AID disbursements ($5,042,911) because prior approvals before disallowances exceeded the amount disbursed.

The Grant Agreement and Implementation Letters required the Central Bank to present transactions to the USAID for final attribution not later than 18 months after the date of each disbursement. These attribution deadlines were initially met by the Central Bank. However, disbursements under Amendments 2, 3 and 4 have not been fully attributed because the USAID disallowed $5,380,135 in transactions per Implementation Letter No. 24, dated April 19, 1984. Implementation Letter No. 24 also gave the Central Bank 60 days to submit substitute transactions. Implementation Letter No. 25 extended this deadline to October 19, 1984. However, the Central Bank had not submitted substitute transactions as of December 31, 1984 because it had overlooked the matter and the USAID had not followed up to ensure compliance.

3. Required Documents Supporting Many Import Transactions Approved by USAID/El Salvador Could Not Be Found in Central Bank Files

At the time of our review USAID/El Salvador had accepted $115.5 million in import transactions from the Government of El Salvador (GOES) for final attribution to grant disbursements. Our review showed that documentation necessary to support many of the transactions was not available in Central Bank files. However, this does not mean that the documentation was not available at the time of attribution. AID implementation letters specified the documentation required to support each transaction for final attribution. Because Central Bank filing and documentation procedures were not adequate, our sample of 79 transactions attributed to the $75 million AID disbursement under Amendment No. 4 disclosed that 83.5 percent of the 5116 transactions probably were not supported by all of the required documentation in Central Bank files (of the transactions we sampled, the Central Bank did not have files for 36.7 percent of the transactions and the documentation was not complete for 46.8 percent).

Recommendation No. 3

We recommend that USAID/El Salvador obtain evidence from the Central Bank that :

a) the required documentation exists to support the final attribution of AID's $75 million disbursement under Amendment No. 4 to the grant agreement.

b) written filing procedures have been established to maintain the required documentation for each transaction.

Action Taken by USAID/El Salvador to Close Recommendation No. 3

This recommendation is considered closed upon publication of this report because of corrective actions taken by USAID/El Salvador on our audit findings and draft audit report. The Arthur Young & Co.'s eligibility review of transaction files in the Central Bank (first mentioned on page 9 of this

report) also included a review to determine the eligibility of the documentation. The Arthur Young and Co. report dated August 15, 1985 contained a listing of 2287 transactions for $75,003,825 deemed eligible for attribution to Amendment No. 4.

Arthur Young and Co. used documentation criteria that were different than those used by the AID auditors. On June 5, 1985 (after we finished our review but before Arthur Young and Co. started theirs) USAID/El Salvador issued Implementation letter No. 32 to reduce the number of documents required to support a transaction retroactive to Amendment 3, dated June 15, 1982.

On August 13, 1985 the Central Bank established written procedures for the filing and documentation of import transactions attributed to AID financing.

Discussion

Implementation Letter No. 5 dated June 26, 1982 required the Central Bank to maintain a separate file for each import transaction. The files were to contain the following documentation in order to make the transactions eligible for final attribution:

1. Letter of Credit Transactions

   Application for Foreign Exchange "Form 15"
   Letter of Credit
   Commercial Invoice
   Bill of Lading or Airweigh Bill
   Import Certificate

2. Supplier Credit Transactions

   Same as above except evidence of payment by the Central Bank to supplier instead of a letter of credit.

We randomly sampled 79 transactions from the universe of 5116 transactions approved for attribution under Amendment No. 4 to the Grant Agreement. We found tha 83.5 percent 3/ of the sampled transactions were not supported in Central Bank files as required (see Exhibit 1). The Central Bank did not have files for 29 transactions (36.7 percent). Of the 50 files found, 13 were for letter-of-credit transactions. Those files contained the required documentation. The remaining 37 files found were for supplier credit transactions (46.8 percent of the sample). The latter did not contain the following required documents:

Name of Document	No. of Transactions	Percent
Commercial Invoice	1	2.7
Bill of Lading	7	18.9
Import Certificate	28	75.7
Evidence of Payment	37	100.0

During our visits to the 79 importers, we found most of the documentation that was missing from Central Bank files. Detailed information on the results of our sample is presented in Exhibit 1 to this report.

3/ Since we conducted an attribute sample, it can only be used to project the number of transactions not complying with criteria. It can not be used to project dollar values. To illustrate, 65.8 percent of the transactions in the sample were supplier credit transactions but they represented only 30.4 percent of the value of all transactions in the sample.

The files maintained by the Central Bank did not contain the required documentation because of inadequate filing procedures. Also the USAID accepted incomplete transactions for attribution for which the documentation was not yet available.

Central Bank filing procedures for transactions submitted to the USAID for attribution in 1984 under Amendments 5, 6 and 7 of the grant agreement now appear adequate. We sampled 15 of these transactions and found that the files contained all of the required documentation except evidence of payment for supplier credit transactions. However, we discovered that the Central Bank does not have written filing procedures. We suggest that such procedures be established in writing to avoid any future problems.

The USAID commented that it believed past documentation requirements had been unrealistic and that they plan to reduce the requirements to the minimum necessary to provide adequate information to ascertain that transactions have been completed and paid and meet all eligibility requirements.

4. Many Import Transactions Approved by USAID/El Salvador Did Not Qualify for Attribution

USAID/El Salvador had accepted $115.5 million in transactions for final attribution to grant disbursements to the Government of El Salvador (GOES). However, our review of the last $75 million accepted by the USAID disclosed that many import transactions, even though they were supported by the required documentation, failed to qualify for attribution. The grant agreement and AID implementation letters set forth specific criteria for import transactions to qualify for attribution, such as source, origin, date of importation, merchandise categories and type of industry.

Both Central Bank procedures for reviewing import transactions and USAID/El Salvador procedures for reviewing and approving attributions were inadequate or in some cases non-existent. Our review of approved transactions demonstrated that some transactions were: (1) for ineligible commodities and industries, (2) approved twice, (3) applicable to ineligible import periods, (4) not accepted at the required FOB values, (5) incomplete, 4/ or (6) of ineligible source and/or origin.

The weaknesses in the procedures used by the Central Bank to select transactions for attribution are addressed later in this report. However, procedures have now changed and conditions at the Central Bank are different than those described in this finding.

Recommendation No. 4

We recommend that USAID/El Salvador:

a) obtain evidence from the Central Bank attesting to the fact that it has reviewed the transactions approved for AID's disbursement of $75 million under Amendment No. 4 to the grant agreement so as to ensure that the transactions were: (1) for eligible commodities and industrial subsectors, (2) financed by the Central Bank, (3) applied to the eligible import period, (4) accepted at FOB values, (5) not duplicate, and (6) in compliance with AID source and origin requirements. (Any transactions that do not meet these criteria should be disallowed by the USAID and eligible transactions should be substituted for them.)

b) define the criteria for eligible commodities and industrial subsectors and obtain from the Central Bank evidence that it has implemented procedures to use those

4/ These transactions were accepted by the USAID for final attribution but should only have been accepted on a preliminary basis.

definitions to record the commodity and industrial subsector classification on a source document such as the Import Permit Application "Form 10".

c) approve only completed transactions for attribution.

d) clearly define criteria for classifying transactions by eligible import periods.

e) obtain evidence from the Central Bank that it has instituted a procedure to obtain evidence of payment from commercial banks for supplier credit transactions.

f) disallow two transactions for a total of $45,941.78 approved twice per Implementation Letter No. 19 and obtain eligible substitutes.

Action Taken by USAID/El Salvador to Close Recommendation No. 4

All parts of this recommendation, (a) through (f), are closed upon the publication of this report because of corrective actions taken by USAID/El Salvador on our audit findings and the draft audit report.

Part (a) - The Arthur Young & Co. review of transactions on file at the Central Bank determined the eligibility of enough transactions to support the $75 million disbursed under Amendment No. 4 to the Grant Agreement (see page 9).

Arthur Young & Co. used some eligibility criteria that were different than those used by the AID auditors. On June 5, 1985 (after we finished our review but before Arthur Young and Co. started theirs) USAID/El Salvador issued Implementation letter No. 32 to change some of the eligibility criteria retroactive to Amendment 3. The U.S. origin requirement was eliminated and transactions were allowed to be attributed at CIF value. This increased the number and value of transactions available for attribution.

Part (b) - The implementation of the computerized selection system which will use the Tariff Codes (NAUCA) and Industrial Use Codes (CIIU) to select eligible transactions by commodity and private sub-sectors should help to correct this problem.

Part (c) - On June 5, 1985 the USAID issued Implementation Letter No. 32 requiring evidence that the transaction has been completed prior to attribution.

Part (d) - On June 5, 1985 the USAID issued Implementation Letter No. 32 to clearly define the criteria for classifying transactions by eligible import period. The letter stated that the date which determines whether a particular transaction may be attributed to a particular Amendment, will be the date on which the Form 15 application was approved, or the date of the Import Certificate.

Part (e) - On June 5, 1985, the USAID issued Implementation Letter No. 32 which replaced the attribution criteria set forth in early letters retroactive to Amendment No. 3. The new implementation letter did not specify any evidence of payment requirements except to state:

> As noted in AID's letter of December 14, 1983 to BCR President Benitez, the issuance of Form 15 is to be construed as an irrevocable commitment on the part of the BCR to make available to the importer the amount of dollars indicated on the form.

According to Implementation Letter No. 32, Form 15 is one of the documents required in order to attribute a transaction to grant disbursements.

Part (f) - On June 6, 1985, the USAID issued Implementation Letter No. 33 to

disallow two transactions for a total of $45,941.78. Eligible substitutes were obtained as part of the Arthur Young & Co. review (see Part (a) above).

Criteria and Procedures to Identify Eligible Commodities and Industrial Subsectors were Lacking

Some ineligible imports were attributed to AID financing because the criteria used for identifying eligible commodities and industrial subsectors were too general and procedures for selecting transactions were not adequate. As a result, our sample of 79 of the 5116 transactions attributed to the $75 million AID disbursement under Amendment No. 4 disclosed that probably eight percent of all the transactions did not apply to the eligible commodities or industrial subsectors to benefit by the program (see Exhibit 1).

Due to El Salvador's civil strife, essential commodities necessary to maintain commerce and enhance economic growth have become scarce. To alleviate this condition, the USG has provided financial assistance for the importation of necessary goods. These imports should be of a nature which will keep factories and farms operating and consumers supplied with essential goods. Basic items should be emphasized, such as raw materials, intermediate and capital goods for the private sector. Conversely, recreational and other luxury imports should be minimized.

Criteria established by the USAID to identify eligible imports for commodities and industries were broad and not definitive in nature. The commodity criteria included: raw material, intermediate goods, agricultural inputs, capital goods and spare parts of the Salvadoran private sector. The private sub-sector industries were manufacturing, agro-industrial, commerce, transportation and energy. These criteria are very general in nature and have not been refined for the employees selecting transactions for attribution to AID financing. This has led to varying interpretations as to the eligibility of commodities and industries. In addition, the prime document for approving the import transaction "Form 10" did not have spaces for recording all types of commodity and industrial subsector categories under this program. The current "Form 10" has been modified to include the use of the Uniform International Industrial Code.

Using statistical sampling techniques, we identified 6 (8 percent) of 79 AID financed transactions which we considered ineligible.

	Commodity	Usage	Reason Ineligible
1)	Spare parts for radio transmitter equipment. (Sample No. 11).	To repair equipment for a radio station.	Spare parts were imported by a radio station which was not one of the allowable industrial subsectors.
2)	Prescription contact lenses (Sample No. 34).	Retail Sales.	Contact lenses were a finished product which was not one of the allowable commodity categories.
3)	Circuit Brakers, Fuses, Tubes and Photo Cells. (Sample No. 39).	To repair cinema equipment.	Spare parts were imported by a public sector institution (Circuito de Teatro Nacional) which was not one of the allowable industrial subsectors.

4)	Spare parts for radio transmitter equipment (Sample No. 44).	To repair equipment for a radio station.	Spare parts were imported by a radio station which was not one of the allowable industrial subsectors.
5)	Pharmaceutical/Ophthalmic Products (Sample No. 74).	Wholesale/Retail Sales	These pharmaceuticals are considered a finished product which was not one of the allowable commodity categories.
6)	Medicines (Sample No. 79).	Wholesale/Retail Sales	Medicines were a finished product which was not one of the allowable commodity categories.

In order to maintain the integrity of the Economic Support Fund, better controls should be established to identify the commodities and industries that would be eligible for attribution to AID financing. We consequently believe that the commodity and industrial subsector criteria should be refined and that those refinements should be used to classify the transaction of a source document such as the Import Permit Application "Form 10".

USAID/El Salvador Comments

Transactions No. 11 and 44 were rejected by the auditors because they considered a commercial radio station to be outside the eligible subsectors. In our opinion, privately owned radio stations are part of the commercial sector in a free enterprise economy and are thus eligible under the criteria. Moreover, replacement parts of electronic equipment are commodities reasonably included in the program.

Office of Inspector General Response

We do not agree that a radio station is part of the commercial subsector. Webster's New Collegiate Dictionary defines commerce as "the exchange or buying and selling of commodities on a large scale involving transportation from place to place".

Since a radio station is not involved in the buying and selling of commodities, we did not classify it as part of the commerce or commercial subsector. This illustrates the need to define the private subsector categories to minimize differences of opinion as to what types of businesses fall into the different private subsectors.

USAID/El Salvador Comments

The USAID believes that the existing categories and sectors are an appropriate level of definition to permit accomplishment of project objectives.... Moreover, the new computer selection process of the Central Bank will assist in assuring that transactions selected fall within the established categories. The system uses the International Tariff Code (NAUCA) and Industrial Use Code (CIIU) to assist in identifying eligible transactions. Physical review of some of the documentation will still be required to assure eligibility. The NAUCA code has been used in the BCR since 1980; the CIIU code since 1984.

Office of Inspector General Response

We believe the existing commodities and sub-sector categories are adequate. However, as illustrated above, these categories need to be better defined to minimize differences in interpretation. The NAUCA and CIIU codes were not used by the employees of the Central Bank to classify the transactions we

sampled. We agree that the action being taken to computerize the selection process using the NAUCA and CIIU codes to classify transactions will help to correct the problem (see page 18).

USAID/El Salvador Comments

While the mission agrees to some refinement in the procedure for the application of appropriate NAUCA and CIIU codes to assist in determining product eligibility, it maintains that a flexible interpretation is required and final decisions must be based on a direct review of the documents involved.

Office of Inspector General Response

We agree with the USAID comments above except we do not believe that a flexible interpretation is required. Differences of opinion on how to classify commodities and private subsectors should be minimized to avoid adverse publicity.

Incomplete Transactions Accepted for Final Attribution

Incomplete transactions were accepted for final attribution because the USAID had not applied established criteria in approving transactions. As a result there is no assurance that all grant disbursements have been used as intended.

The USAID accepted two types of transactions for final attribution. One type was financed by a letter of credit. Under this procedure, the importer's commercial bank applies for foreign exchange at the Central Bank to finance the proposed transaction. After the Central Bank approves the importer's Application for Foreign Exchange "Form 15", the importer's commercial bank opens a letter of credit through a U.S. bank payable to the U.S. exporter (supplier). The U.S. exporter is generally paid by the U.S. bank under the letter of credit after the goods are shipped.

The other type of transaction was financed by supplier credit. Under this procedure, the goods are sold by the U.S. supplier (exporter) to the Salvadoran importer on credit. After the goods are shipped to El Salvador and cleared through customs, the importer's commercial bank applies for foreign exchange at the Central Bank. After the Central Bank approves the Application for Foreign Exchange "Form 15", the Central Bank disburses dollars to the commercial bank and the U.S. supplier is paid.

Only completed transactions were to be accepted for final attribution. Implementation Letter No. 5 defines a completed transaction as one where the goods have arrived in El Salvador and have been cleared through customs. In the case of supplier credit transactions, the USAID also required the Central Bank to present evidence of payment prior to final attribution.

Implementation Letter No. 19 stated that the cumulative value of transactions approved for final attribution under Amendment No. 4 of the grant agreement was $75,942,946. As shown below, this amount included $37,039,014 of incomplete transactions (those that should have received preliminary AID approval only). The acceptance of incomplete (preliminary) transactions for final attribution is contrary to the established criteria.

Letter of Credit Transactions		
Annex D	$12,072,285	
Annex E	3,817,064	$15,889,349
Supplier Credit Transactions		
Annex G	$17,323,849	
Annex H	3,825,816	$21,149,665
TOTAL		$37,039,014

The letter of credit transactions were accepted based only on the approval of the Application for Foreign Exchange "Form 15" before the goods had arrived in El Salvador and cleared customs. The risk of accepting incomplete transactions for final attribution lies in the possibility that the importer may never use the approved foreign exchange allocation to import the goods. Our sample of 79 transactions attributed to Amendment No. 4 (5116 transactions) disclosed that this probably happened in 2.5 percent of the transactions (see Exhibit 1).

The supplier credit transactions were accepted for final attribution by the USAID before the Central Bank had presented evidence that the transaction had been paid, even though such evidence was required by Implementation Letter No. 22. Our sample of transactions under Amendment No. 4 confirmed that no evidence of payment existed in any of the supplier credit files which we reviewed at the Central Bank. To obtain such evidence the Central Bank should establish a procedure to obtain this information from the commercial banks. The inherent hazard in accepting supplier credit transactions prior to obtaining evidence of payment is that the U.S. supplier may never be paid. Our sample of 79 transactions under Amendment No. 4 disclosed that this probably happened in 2.5 percent of the transactions (see Exhibit 1).

To correct these problems, we believe that: (1) the USAID should only approve completed transactions for attribution; (2) the USAID and the Central Bank should review the $37,039,014 of incomplete transactions accepted for final attribution and disallow any transactions that do not comply with established criteria; and (3) the Central Bank should establish a procedure to obtain evidence of payment from the commercial banks for supplier credit transactions.

The USAID stated they are planning to authorize preliminary attribution of incomplete letter of credit transactions in order to control at an early stage the source and value of transactions to ensure compliance with program requirements. We believe this procedure is not efficient because it has created many of the attribution problems discussed in this finding. A complex accounting system would be needed to track each transaction from its preliminary to final attribution stage in order to avoid duplication of transactions.

Also, under current procedures, the USAID, the Central Bank and the Superintendent of Banks would have to review each transaction twice (first for preliminary attribution and again for final attribution). To avoid this duplication of effort, the USAID should establish a realistic attribution period. If this is done, transactions would only have to be submitted once for final attribution, thus eliminating the need for preliminary attribution.

Transactions Attributed to Ineligible Import Periods

Many import transactions have been attributed to ineligible import periods because eligibility criteria were only vaguely defined and not applied by the USAID and the Central Bank in segregating transactions by eligible import periods. As a result, the Central Bank may not have made available an amount of foreign exchange equal to each disbursement within the eligible import periods.

The amended grant agreement provided that over a period of 12 months from the date of each disbursement under the grant agreement, the GOES would make available an equal amount of foreign exchange for the importation of goods from the United States.

The criteria for determining the eligible import period of a transaction has never been clearly defined. The USAID told us that if the commodities arrived in El Salvador (date of import certificate) or the Application for Foreign Exchange "Form 15" was approved during the 12-month period following each disbursement, then the transaction would be eligible for attribution to that period.

Implementation Letter No. 5, dated June 26, 1982, made reference to one of these criteria. It stated that the foreign exchange made available under

Amendments 2 and 3 of the grant was to be used for payment due on eligible goods that arrived in El Salvador after the date of Amendment No. 2. Also, Implementation Letter No. 24 stated, when requesting substitute transactions for disallowed ones, that the substitute transactions were to be completed prior to the end of the eligible import period. Implementation Letter No. 5, dated June 26, 1982, defined a completed transaction as one in which the goods had arrived in El Salvador and been cleared through customs.

We found two examples where transactions were attributed to ineligible import periods.

First, we found that 27.8 percent of the 79 sampled transactions approved under Amendment No. 4 did not fall within the eligible import period. We classified the transactions as ineligible if the goods had not arrived or the Application for Foreign Exchange had not been approved during the eligible import period (see Exhibit 1).

Second, the USAID carried over attributions approved in excess of requirements from one disbursement to another even though they were not eligible for carryover. This happened when the USAID approved attributions for disbursements under Amendments 2 and 3 to the Grant Agreement. The cumulative value of transactions approved for final attribution under Amendments 2 and 3 was $26,508,384. The USAID attributed $20,605,721 to the original disbursement of $20 million made on December 19, 1980. However, the USAID carried over $605,721 of the excess attributions from the original disbursement and included it in the $26,508,384.41. The eligible import period under the amended Grant Agreement for Amendments 2 and 3 was from July 1, 1982 to June 30, 1983.

We question if any of the transactions from the original disbursements could be applied to Amendments 2 and 3 since the last of the transactions from the original disbursement were approved as completed by the USAID on October 1, 1981 or almost one year before the start of the eligible import period under Amendments 2 and 3. We could not verify this because we could not find in USAID or Central Bank files a listing of the transactions approved for the original disbursements. The Superintendent of Banks had not certified any of these transactions. In calculating the attributions still lacking under Amendments 2 and 3 on page 10 of this report, we have disallowed the ineligible carryover of $605,721.

To correct these problems, we believe that (1) the USAID should issue an Implementation Letter to clearly define criteria for classifying transactions by eligible import periods; (2) the USAID should not carryover attributions approved in excess of requirements from one disbursement to another if the attributions do not meet the eligibility requirements of the carryover import period; (3) the USAID and the Central Bank should analyze the transactions attributed to the AID disbursement under Amendment No. 4 to ensure that they fall within the eligible import period and disallow any ineligible transactions; and (4) obtain eligible substitute transactions for any disallowed, as suggested above.

Transactions Attributed Twice

The Central Bank has submitted some transactions to the USAID for attribution twice because the Central Bank had not established procedures to identify duplicate transactions. Some of these duplicate transactions were approved by the USAID. As a result, grant disbursements were not fully supported by eligible transactions.

USAID/Controller reviews disclosed the following:

- In January 1984, the Controller found that the USAID had approved 42 transactions for a total of $4,419,297 twice - first under Implementation Letter No. 10 dated March 18, 1983 and later under Implementation Letter No. 14 dated June 2, 1983. The USAID disallowed the duplicate transactions under Implementation Letter No. 24 dated April 19, 1984.

- The Controller found in June 1984 that the USAID had approved two transactions for a total of $45,941.78 twice. They were both listed in Annex A to Implementation Letter No. 19. The USAID had not taken action to disallow these duplicate transactions as of December 31, 1984.

Transaction No.	Amount
216/83	$ 2,000.00
1241/82	43,941.78
	$45,941.78

- In February 1984, the Superintendent of Banks advised the USAID that the Central Bank had resubmitted 226 transactions for a total of $7,739,847.63 that had been previously certified. The Controller reviewed some of these transactions in June 1984 and found that the Central Bank submitted 66 transactions twice for a total of $1,221,404. The transactions were first submitted and approved by the USAID in Annexes D and E of Implementation Letter No. 19 dated October 19, 1983. They were resubmitted by the Central Bank in February 1984 but were not approved because the USAID Controller identified the duplication. The Central Bank submitted duplicate transaction to the USAID mainly because they had not established procedures for identifying duplicate transactions. This generally occurred when the Central Bank submitted incomplete (preliminary) transactions to the USAID for approval and resubmitted these transactions again after completion.

To correct this problem, we believe the USAID should disallow the two transactions for a total of $45,941.78 approved twice in Implementation Letter No. 19.

Transactions Attributed to Ineligible Source and Origin

Some import transactions have been attributed to ineligible source and origin because the Central Bank had not adequately applied eligibility criteria in selecting transactions for attribution. As a result, there is no assurance that all AID grant disbursements have been used as intended.

The Grant Agreement provided that imports should be from the United States for use by the private sector. Implementation Letter No. 22, dated March 21, 1984, established an additional requirement that the origin of imported goods to be attributed to Amendment No. 4 should be from the United States. The USAID plans to eliminate the U.S. origin requirement for transactions to be attributed to AID disbursements retroactive to Amendment No. 3.

Our sample of the 79 transactions attributed to the AID disbursement of $75 million under Amendment No. 4 disclosed that some transactions did not meet these requirements. We found that 2.5 percent of the sampled transactions were not of U.S. source and 2.5 percent were not of U.S. origin (see Exhibit 1).

Selective reviews done by the USAID/Controller's Office also confirmed that the source and origin requirements were not fully met. The transactions identified to be ineligible as a result of the Controller's review were disallowed under Implementation Letter No. 24.

We believe that the USAID and the Central Bank should review the transactions approved under Amendment No. 4 of the Grant Agreement to ensure compliance with these requirements and disallow any ineligible transactions.

USAID/El Salvador Comments

USAID/El Salvador maintains that based on a GC opinion dated April 16, 1984 and the language of the Authorization for the project, origin is not a criteria in determining eligibility. While operating on this assumption for some time, on June 5, 1985 in Implementation Letter No. 32 the Mission formally clarified this position retroactive to Amendment No. 3.

Office of Inspector General Response

Our review of the eligibility of transactions was based on the source and origin criteria in effect when we did the review. These were the same criteria used by the USAID/El Salvador Controller's Office and the Superintendent of Banks in their reviews. Implementation Letter No. 32, which retroactively eliminated the U.S. origin requirement, was issued after we completed our review.

Transactions Were Not Accepted at FOB Values

Some transactions were not accepted for attribution at FOB 5/ values as required by AID Implementation Letters. This happened mainly because the USAID accepted transactions at CIF 6/ values for attribution before they were completed and FOB values were known. As a result, the amounts attributed to AID financing were overstated.

Our sample of 79 transactions attributed to the AID disbursement of $75 million under Amendment No. 4 disclosed that 19 percent of the sampled transactions were not attributed at FOB values. This occurred mainly because the USAID accepted incomplete transactions (those that should have only been approved on a preliminary basis) for final attribution in Annexes D and E of Implementation Letter no. 19. To avoid this problem the USAID should only approve completed transactions where FOB values are known or, if not known, estimate the FOB value using the procedure established in Implementation Letter No. 22.

USAID/Controller reviews also disclosed that transactions were not accepted at FOB values.

We believe the Central Bank should review the transactions attributed to the $75 million disbursement under Amendment No. 4 and adjust the amounts erroneously attributed at CIF values to FOB values; also the USAID should only accept completed transactions for attribution where FOB values are known or estimate the FOB values using established procedures.

USAID/El Salvador Comments

USAID/El Salvador disagrees with attribution of only FOB values. The full value of U.S. Dollars made available, including insurance and freight, should be used in calculating the value of eligible transactions.

Office of Inspector General Comments

Our eligibility review as well as those made by the Controller's Office of USAID/El Salvador and the Superintendent of Banks has based on the FOB requirements in effect when the reviews were made. On June 5, 1985, after we completed our review, the USAID issued Implementation Letter No. 32 to retroactively authorize the use of CIF values.

5/ FOB = Cost of goods at port of export.
6/ CIF = Cost of goods at port of import, which includes insurance and freight.

5. Transactions Were Not Adequately Certified by the Superintendent of Banks

Because of a lack of proper controls, the USAID accepted many transactions for final attribution which either were not certified by the Superintendent of Banks or were certified but not based on a review of all the eligibility criteria. AID implementation letters set forth the responsibilities of the Superintendent of Banks and the eligibility criteria.

Many transactions were approved but not certified by the Superintendent because the USAID accepted incomplete (preliminary) transactions and the Superintendent only certified completed transactions. The certifications of the Superintendent did not cover a review of all the eligibility criteria because the responsibilities of the Superintendent were not clearly defined in AID implementation letters. As a result of these certification deficiencies, controls to ensure proper eligibility were not established and the USAID cannot be assured that the transactions accepted for attribution are eligible under the terms of the program.

Recommendation No. 5

We recommend that USAID/El Salvador:

a) obtain the certification of the Superintendent of Banks for uncertified transactions attributed to the AID disbursement under Amendment No. 4 and disallow any transactions that cannot be certified.

b) issue a revised implementation letter to clearly define the certification responsibilities of the Superintendent of Banks to ensure the Superintendent certifies transactions against all eligibility criteria (this can be done by including a list of the eligibility criteria in the Superintendent's statement of responsibility).

Action Taken by USAID/El Salvador to Close Recommendation No. 5

Both parts of this recommendation are closed upon the publication of this report because of corrective actions taken by USAID/El Salvador on our audit findings and draft audit report.

Part (a) - The Arthur Young & Co. report on its review of import transactions to support the AID disbursement under Amendment 4 of the Grant Agreement contained a certification as to the eligibility of the transactions. USAID/El Salvador believes, and we agree, that under these circumstances a certification by the Superintendent of Banks would be superfluous.

Part (b) - On June 5, 1985 USAID/El Salvador issued Implementation Letter No. 32 which clarified the eligibility criteria and procedures to be used by the Superintendent of Banks in certifying transactions.

Background

Implementation Letter No. 5 dated June 26, 1982, provided that the Superintendent of Banks submit a certified report of completed import transactions to the USAID. A completed transaction was defined as one where the merchandise has arrived in El Salvador and been cleared through customs. The certification was to contain an explanation of those transactions for which there was a discrepancy between the amount of foreign exchange and the quantity or type of goods received in the country, as shown in the various transaction documents such as the application for Foreign Exchange, the Letter of Credit or customs documentation.

On March 21, 1984 Implementation Letter No. 22 changed the certification procedures to also require the Superintendent of Banks to certify the report of transactions submitted by the Central Bank to the USAID by affixing his seal to each page of the Central Bank report.

Transactions Not Certified by Superintendent of Banks

Many transactions were approved for final attribution by the USAID without the required certification of the Superintendent of Banks. This happened mainly because the USAID accepted incomplete (preliminary) transactions for attribution and the Superintendent of Banks only certified completed transactions. As a result, some of the transactions attributed were ineligible and the amounts attributed to others were not correct.

The Superintendent of Banks had certified $35,547,679 of transactions approved by the USAID for final attribution to the $75 million disbursed under Amendment No. 4, leaving $39,452,321 of transactions uncertified. This happened because the Central Bank submitted many incomplete (preliminary) transactions to the USAID for approval and did not ask the Superintendent to certify the transactions.

To correct this problem, we believe the USAID should obtain the certification of the Superintendent of Banks for uncertified transactions attributed to the AID disbursement under Amendment No. 4 and disallow any transactions that cannot be certified.

Certifications by Superintendent of Banks Do Not Cover All Eligibility Criteria

The certification by the Superintendent of Banks of transactions submitted for attribution did not cover all of AID's eligibility criteria because the responsibilities of the Superintendent were not clearly defined in AID implementation letters. Consequently, the USAID cannot be assured that the certified transactions are eligible for attribution under the terms of the program.

We believe that the certification responsibilities of the Superintendent as defined in AID implementation letters is too general to ensure AID that transactions are eligible in accordance with established criteria. We have compared the established eligibility criteria with those included in the Superintendent's certification reviews. This comparison showed that the Superintendent has not included in his reviews the eligibility of transactions by import period. As a result, we found that 27.8 percent of our sample of transactions attributed to the $75 million disbursement under Amendment No. 4 did not fall within the eligible import period (see Exhibit 1).

The Superintendent also made some errors in other areas because:

- he lacked time and personnel to do the certifications;
- some of the eligibility criteria were too general;
- many documents in Central Bank files were copies thus creating the possibility of duplicate certifications;
- the Central Bank had not promptly sent copies of AID Implementation Letters to the Superintendent. For example, the USAID had issued 28 Implementation Letters as of February 13, 1985 but the Superintendent had received only 22.

The certification of the Superintendent of Banks did not cover all of AID's eligibility criteria because the responsibilities of the Superintendent had not been clearly defined in AID Implementation Letters. Consequently, the USAID cannot be assured that the certified transactions are eligible for attribution under the terms of the program.

To correct this problem we believe the USAID should issue a revised Implementation Letter to clearly define the certification responsibilities of the Superintendent of Banks to ensure that the transactions are reviewed against all established criteria. This can be corrected by including a list of the eligibility criteria in the statement of the Superintendent's certification responsibilities.

The USAID said they are considering eliminating this certification requirement for future disbursements once a computerized system has been established for selecting transactions for attribution.

6. Procedures for Selecting Transactions for Attribution Were Not Adequate

Many ineligible transactions were selected for attribution to AID disbursements in 1982 and 1983 because, as noted previously, Central Bank selection procedures were not adequate. The AID grant agreement and implementation letters set forth criteria for determining the eligibility of transactions. The Central Bank modified its selection procedures in late 1983 to input information on import transactions in its computer files. Changing from a manual to a computerized selection system should greatly reduce the number of ineligible transactions selected for attribution. However, a computerized process for selecting transactions for attribution had not yet been established.

Recommendation No. 6

We recommend that USAID/El Salvador verify that the Central Bank has installed a computerized selection system for attribution of import transactions to AID financing.

Action Taken by USAID/El Salvador on Audit Recommendation

Recommendation No. o is to be considered resolved on the publication of this report because Arthur Young & Co. under a contract with USAID/El Salvador are providing technical assistance to the Central Bank to develop, among other things, a computerized selection system by August 1985. We plan to perform a follow-up review in the not-too-distant future to verify that this system is operating effectively.

Discussion

Current Central Bank procedures for selecting transactions for attribution are as follows:

- The Department of Exterior selects the letter of credit transactions for attribution and the Department of Exchange Control selects the supplier credit transactions.

- These two departments submit a report of selected transactions to the Data Processing Department.

- The Data Processing Department inputs the data into an AID data base file and prints a listing of the transactions reported

We believe that the current role of the Data Processing Department is too limited to ensure the accurate selection of eligible transactions. Currently the process of selecting transactions is not computerized. The Data Processing Department simply transcribes transactions selected by other departments. However, the Data Processing Department has designed and incorporated into the AID data base most of the elements (fields) that would be needed to establish a computerized selection system. In addition the Data Processing Department could access the Central Bank's main data base for all import transactions to supplement needed information not included in the AID data base. Therefore, the change from a manual to a mechanized selection system could be made without having to make a big investment in time and resources.

The AID data base now being used has most of the fields needed for a mechanized selection system. However, there is no data in some of the fields. The status of these fields is as follows:

Criterion	Field Exists	Field is Used
Source	Yes	Yes
Origin	No	No
Date of Arrival	Yes	Yes
FOB Value	Yes	Yes
Date of Payment	Yes	Yes
Type of Industry	No	No
Type of Commodity (raw material, agriculture, etc.) 7/	Yes	Yes
NAUCA Code 8/	Yes	Yes
Type of Payment, (total, partial or last)	Yes	No
Transaction Certified	Yes	No
Transaction Reported to USAID for Attribution	Yes	No
Data of "Form 15" Approval 9/	No	No

7/ Will be modified to make more specific.
8/ Nomenclatura Arancelaria Uniforme Centroamericana (Uniform Central American Tariff Code).
9/ Field for letter-of-credit transactions exists but not for supplier credit transactions.

To develop a computerized selection system the Data Processing Department must determine:

- what information is needed;
- what source documents can be used for obtaining information needed;
- changes necessary in source documents;
- how files should be modified so they can contain required information;
- software needed to: (i) capture information, (ii) determine which transactions meet attribution criteria (eligible import period, source, etc.), (iii) eliminate the selection of duplicate transactions, and (iv) carry out any other required processing.

In 1984 the Central Bank submitted $126.4 million in import transactions to the USAID for attribution using the selection procedures described in this finding. To verify the eligibility of the transactions selected, the USAID contracted with Peat, Marwick and Mitchell. To assist the contractor in the analysis of the transactions, the Central Bank computer was used to identify and eliminate duplicate transactions.

B. P.L. 480 and ESF Local Currencies

1. Interest Earned and Sales Proceeds Retained from the Sale of P.L. 480 Title I and II Commodities

The banks that sell P.L. 480 Title I commodities on behalf of the GOES were allowed to retain interest earned on credit sales and to accumulate and use sales proceeds at zero interest cost. This is contrary to sound business practices since it prevents SETEFE 10/ from earning interest on these funds. This situation arose because these matters were not adequately covered in the

10/ SETEFE, the Technical Secretariat for External Financing, was established in 1983 to manage funds received from foreign donors.

sales agreements between the GOES and the banks. We also found that the Institute of Food Regulation (IRA) had retained proceeds from the sale of Title II commodities and that the Agricultural Development Bank had authorized credit sales exceeding 180 days. Both actions were contrary to their sales agreements with the GOES. As a result, the banks and IRA have made unearned profits, and the interest earned on credit sales had not been programmed and controlled. Also, the local currency projects financed by the sales proceeds could be delayed due to a shortage of funds in the special accounts.

Recommendation No. 7

We recommend that USAID/El Salvador:

a) obtain evidence from the GOES that its sales agreements with the Agricultural Development Bank and the Mortgage Bank have been modified to require the deposit into the special account within a specified number of days after generation of: (1) sales proceeds and (2) any interest earned on credit sales (less a reasonable administrative fee).

b) ensure that SETEFE obtains from the Mortgage Bank the $9.4 million sales proceeds retained since September 1984.

c) obtain evidence that SETEFE has established a procedure to verify that the Agricultural Development Bank, the Mortgage Bank and the Institute of Food Regulation deposit their sales proceeds and interest earned into the special accounts when required by their sales agreements and comply with the credit provisions of their agreements.

Actions Taken by USAID on Audit Recommendations

All parts of this recommendation are closed upon publication of this report because of corrective actions taken by USAID/El Salvador and the Government of El Salvador.

Part (a) - The Government of El Salvador signed new sales agreements with the banks in August 1985 that will allow SETEFE to charge 7 percent interest on sales proceeds held by the banks. In addition to the above, SETEFE can deposit the sales proceeds and interest earnings received from the banks into interest-bearing commercial accounts until such funds are needed for program purposes. While this procedure is not exactly what we recommended, it satisfies the intent of our recommendation to provide more income to SETEFE for program purposes and eliminate the unearned profits for the banks.

Part (b) - SETEFE obtained $9.1 million of the sales proceeds retained from the Mortgage Bank in April 1985.

Part (c) - In a letter dated July 24, 1985, SETEFE informed USAID/El Salvador that they have set-up a special unit to monitor bank compliance with its sales agreements.

Background

The GOES entered into sales agreements with the Agricultural Development Bank and the Mortgage Bank (GOES owned banks) to sell P.L. 480 Title I commodities. These agreements provide that the sales proceeds be deposited into a special account whenever requested by SETEFE. The sales proceeds are jointly programmed by SETEFE and the USAID for development activities such as separate GOES projects and as counterpart for AID and other donor projects. The sales agreements provide that the P.L. 480 Title I commodities can be sold by the banks on credit for up to 180 days. They also provide that banks

should charge the market rate of interest on credit sales. The agreements in effect allow the banks to retain all interest earned on credit sales since they are silent as to which institutions are entitled to keep the interest earned.

The GOES has also signed a sales agreement with the Institute of Food Regulation (IRA) to sell P.L. 480 Title II (Section 206) commodities. This agreement as well as the P.L. 480 Title II Memorandum of Understanding requires IRA to deposit the sales proceeds monthly in a special account maintained for this purpose by SETEFE.

Interest Earned on Credit Sales Retained by Agricultural Development Bank

The interest earned by the Agricultural Development Bank on credit sales of P.L. 480 Title I commodities had been retained by the bank because the sales agreement is silent concerning the disposition of interest earnings. This is contrary to sound business practices since the bank had made unearned profits and the interest earned had not been programmed and controlled as are the proceeds from the sale of commodities.

We found that for the year ending December 31, 1984, the Agricultural Development Bank earned the equivalent of $506,000 in interest on credit sales of P.L. 480 commodities. The USAID was aware that the bank had retained the interest but considered it a means to capitalize the bank. It is our opinion that if the USAID and SETEFE believe that the bank needs this money, then it should be deposited into the special account (less a reasonable administration fee) and disbursed to the bank through the established budgetary and control system.

We also found that, although the Mortgage Bank had not made any credit sales using P.L. 480 commodities, its sales agreement is also silent on the disposition of interest earned. We thus believe that this agreement should also be modified to provide for the deposit of interest earned into the special account to avoid potential unearned profits and provide additional resources to finance GOES development activities.

In sum, we believe that the USAID should obtain evidence from the GOES that the sales agreements with the Agricultural Development Bank and the Mortgage Bank have been modified to provide for the deposit of interest earned on credit sales (less a reasonable administrative fee) into the SETEFE special account.

Sales Proceeds Not Promptly Deposited in Special Account by Mortgage Bank and Agricultural Development Bank

The Mortgage Bank and Agricultural Development Bank have not promptly deposited proceeds from the sale of P.L. 480 Title 1 commodities into the special account because the agreements between the GOES and the banks require that funds be deposited only when requested by SETEFE. This is contrary to sound business practices since the retention of sales proceeds prevents SETEFE from earning interest on these funds. As a result, the Mortgage Bank can use these funds to finance its operations and realize unearned profits. Also, delays in the deposit of sales proceeds to the special account could delay the implementation of project activities financed with P.L. 480 monies.

We found that between September and December 1984, the Mortgage Bank had accumulated and retained about $9.4 million in proceeds from the sale of P.L. 480 commodities. The Mortgage Bank did not promptly deposit the proceeds in the special account because SETEFE did not request any deposits as provided by the sales agreement between the GOES and the bank; also, the agreement does not require that the proceeds be deposited after generation. Consequently, the bank had free use of this money.

We also found the Agricultural Development Bank had retained $7,207,956 in sales proceeds for three months in 1984 (September 1 through November 21, 1984).

We believe the sales agreements between the GOES and the Agricultural Development Bank and the Mortgage Bank should be modified to require the deposit of proceeds into the special account within a specified number of days after the proceeds are generated. We also believe that the USAID should ask SETEFE to obtain from the Mortgage Bank the $9.4 million of sales proceeds retained since September 1984.

Sales Proceeds Retained by Institute of Food Regulation

According to a SETEFE financed external audit, the Institute of Food Regulation (IRA) retained $772,795 of proceeds generated from the sale of P.L. 480 Title II (Section 206) commodities from August 9 to November 22, 1984. This was contrary to the IRA agreement with the GOES and the GOES/AID P.L. 480 Title II Memorandum of Understanding which provided that IRA should deposit these proceeds into the special account on a monthly basis. Consequently, IRA was able to use these funds to finance its operations and realize unearned profits. Also the delays in the deposit of the funds to the special account could delay the implementation of projects financed with the Title II monies. During 1984 there was a shortage of funds in the Title II account and it was thus necessary for SETEFE to use Title I monies to finance Title II activities. To ensure that IRA, the Mortgage Bank and the Agricultural Development Bank deposit sales proceeds when required by their agreements, SETEFE should establish a procedure to verify compliance with the agreements.

Agricultural Development Bank Authorized Credit Sales for More than 180 Days

On December 6, 1984, the Agricultural Development Bank extended four overdue loans made to a private Salvadoran company, Sello de Oro, S.A., for an additional 120 days. The amount extended totalled $1,126,171. This was contrary to its sales agreement with the GOES which authorizes credit for up to 180 days only. The granting of credit for more than 180 days delays the deposit of sales proceeds into the special account and in our opinion should not be condoned unless previously authorized by SETEFE.

USAID/El Salvador Comments

The USAID objected to our recommendation because a legal opinion from the Regional Legal Advisor that stated that interest earned on credit sales is not part of the P.L. 480 proceeds and is not subject to AID control.

Office of Inspector General Response

Our recommendation is not based on a legal opinion but on sound business practice. In addition, AID Policy Determination No. 5, dated February 22, 1983, as quoted below, supports our position that the host government should earn interest on idle funds:

> Mission should consider depositing the sales proceeds into an interest bearing commercial bank account established to help finance development activities not agreed upon during negotiations or not yet ready for implementation; both the principal and the interest can later be used for funding such activities.

2. The Central Election Council Did Not Observe AID Restrictions on The Use of ESF Funds

The Central Elections Council received 10.4 million colones ($4.16 million) in ESF local currency funds and used at least the equivalent of $295,818 for expenses ineligible under the terms of the 1984 Memorandum of Understanding. Operating personnel we talked to at the Central Election Council and the Ministry of Finance were not aware of restrictions on the use of ESF funds. Although USAID/El Salvador contends that senior GOES personnel were aware of the restrictions, controls were not effectively established to prevent the use of ESF funds for ineligible expenses.

Recommendation No. 8

We recommend that USAID/El Salvador require the GOES to:

a) review all expenditures incurred by the Central Election Council and attribute to ESF funds only expenses allowable under the terms of the 1984 Memorandum of Understanding.

b) return to the Ministry of Finance special account any ESF funds not attributed to allowable expenses and reprogram these funds.

Actions Taken by USAID/El Salvador to Close Recommendation No. 8

This recommendation is closed upon publication of this report because USAID/El Salvador took corrective action on our audit findings and draft audit report. On July 27, 1985, the Government of El Salvador revised its first report of ineligible expenses dated April 23, 1985 which we analyzed during our audit (see Exhibit 2). The revised GOES report showed that ineligible expenses increased to $1,277,922 (C.3,194,805) from $494,158 (C.1,235,396.51) shown in its first report.

As shown below, the GOES determined that $696,702 (C.1,741,755.97) of the C.10.4 million of ESF funds were not used for eligible expenses. The Government of El Salvador asked USAID/El Salvador for authority to jointly reprogram this money and the USAID agreed.

	(Millions of Colones)		
	Total	AID	GOES
Contributions	11,853	10,400	1,453
Less Ineligible Expenses	3,195	1,742	1,453
Eligible Expenses	8,658	8,658	---

The GOES list of ineligible expenses of C.3,194,805.49 was slightly more than the figure shown in our draft report of C.2,941,960.91 because the Government of El Salvador considered all salary expenses as ineligible whereas we considered as ineligible only the salary expenses of council personnel who, in our opinion, could influence the outcome of the election. However, we are willing to accept the criteria used by the GOES to determine the ineligibility of salary expenses.

Background

In calendar year 1984, the GOES budgeted 13,008,585 colones ($5,203,434) for the Central Election Council to finance the Salvadoran election program. Of the 13,008,585 colones budgeted for the program, 10.4 million colones ($4.16 million) was to be financed with ESF local currency under the terms of the 1984 Memorandum of Understanding. The remaining 2,608,585 colones ($1,043,434) was to be financed by the GOES from its own resources.

The 1984 Memorandum of Understanding contained the following restrictions regarding the use of the ESF funds (10.4 million colones) allocated to the Central Election Council, unless AID otherwise agreed in writing.

Eligible. Funds were to be used only for financing certain expenses. They are (i) office and administrative supplies, (ii) ballot boxes and stands, (iii) design, printing and distribution of ballot forms and other legal documents (iv) general transportation in support of elections, and (v)

short-term contracts in direct support of the election program in general or of the Salvadoran Elections Project in particular.

Ineligible. Funds were specifically not to be used for financing (i) salaries, per diem or training of election officials (poll watchers, local poll administration teams, etc.), (ii) the cost of the political debt 11/, and (iii) publicity related to the elections.

The USAID/El Salvador Program Officer told us that salary costs of election officials would be ineligible only if the officials were in a position to influence the outcome of the election. Even though this rule was not specifically stated in the 1984 Memorandum of Understanding, we nevertheless accepted it in determining the eligibility of expenses. According to current procedures, the Ministry of Finance ultimately determines how the expenses incurred by the Central Election Countil will be financed. As such, even if the Council specifically states on its vouchers that certain expenses are to be financed with ESF funds, the Ministry of Finance presumably has the final determination as to whether GOES or ESF funds will be used.

Discussion

Our review of a report prepared by the Ministry of Finance on April 23, 1985 regarding the expenses of the Central Election Council showed that at least $295,818 in ESF funds were used to finance ineligible expenses. This amount could be higher because the expenditure report included 1,147,706 colones ($459,082) in unliquidated obligations for which expense details were not available. Of the 13 million colones in expenses or obligations incurred by the Central Election Council as of April 23, 1985, we found that 3,348,131 colones were for expenses ineligible under the terms of the 1984 Memorandum of Understanding (see below). Since the ineligible expenses of 3,348,131 colones exceeded the GOES contribution to the Central Elections Council of 2,608,585 colones, the excess of 739,546 colones or $295,818 will have to be charged to ESF funds unless the GOES increases its contribution to the project by the same amount.

Comparison of Ineligible Expenses
Identified by AID Auditors and GOES

	Per AID Auditors	Per GOES Report 04/23/85
Total Budget	C.13,008,585	C.13,008,585
Less: ESF Local Currency Funds	10,400,000	10,400,000
GOES Funds Available for Ineligible Expenses	C. 2,608,585	C. 2,608,585
Less: Total Ineligible Expenses as of 12/31/84 (Exhibit 2)	C. 2,941,961	C. 1,235,397
Ineligible Unliquidated Obligations	406,170	406,170
GOES Funds Available for Ineligible Expenses	-	967,018
	C. 3,348,131	C. 2,608,585
ESF Funds used to Finance Ineligible Expenses	C. 739,546	C. ---
Dollar Equivalent	$ 295,818	$ ---

As can be seen above, the GOES report of expenses dated April 23, 1985 only contained 1,641,567 colones of ineligible expenses compared to 3,348,131 colones found by our auditors. Exhibit 2 shows the differences between the

11/ Debt incurred by political parties participating in the elections.

findings of our auditors and the GOES. Our auditors found ineligible expenses for salaries, publicity, per diem, entertainment, food, and alcoholic beverages. The GOES only found ineligible expenses for salaries and publicity. Our auditors and GOES agreed on the amount spent for publicity but the GOES reported a much lower amount for ineligible salaries. The GOES only reported 48,420 colones of ineligible expenses for salaries of poll watchers. However, our auditors found 331,850 colones of ineligible payments to poll watchers. In addition, we included the salaries of the management officials of the Central Election Council as ineligible since management was in a position to influence the outcome of the election (see Exhibit 2).

Our auditors did not include in their list of ineligible salaries 586,017 colones advanced to the "Juntas Departamentales" for the salaries of local poll administration teams since these advances had not been liquidated. Once these advances are liquidated and the expenses are recorded in the accounting records, the amount of ineligible expenses for salaries would have to be increased.

Our auditors also reported per diem expenses as ineligible because they were explicitly disallowed in the Memorandum of Understanding. We also classified expenses for entertainment, food and alcoholic beverages as ineligible. The Memorandum of Understanding did not explicitly allow or disallow these expenses.

Personnel at the Central Election Council and Ministry of Finance who were interviewed by our auditors were unaware of the restrictions on the use of ESF counterpart funds and consequently had not established the necessary internal control procedures. USAID/El Salvador personnel contended that senior GOES personnel were aware of the restrictions when the Memorandum of Understanding was negotiated and signed.

USAID/El Salvador personnel also contended that the Ministry of Finance had established budgetary controls to ensure that ineligible expenses would not be charged to ESF funds. These controls would require the funding of ineligible expenses with GOES funds. However, our review of the budget and conversations with budget officials of the Ministry of Finance showed that controls were not established to identify ineligible expenses.

Failure to establish these controls, such as in this case, can result in misuse of funds. To ensure that the funds were used as intended, we believe the GOES should review all expenses incurred and only attribute eligible expenses to ESF funds. Any remaining ESF funds not attributed to eligible expenses should be returned to the special account of the Ministry of Finance and reprogrammed as agreed to by the GOES and USAID/El Salvador.

USAID/El Salvador Comments

USAID/El Salvador disagrees with the comments and recommendations. The audit comments and recommendations were based on preliminary, incomplete GOES reports. At the time audit work was completed the GOES had not yet submitted to USAID a final report for attribution. The GOES final report was received by the Mission and only C.8.6 million were accepted as eligible. The difference, C.1.8 million is being jointly reprogrammed with the GOES.

Office of the Inspector General Response

USAID/El Salvador, in effect, implemented our recommendation. The GOES report of April 23, 1985, on which we based our audit finding, was called a final report by the GOES. This report was revised by the GOES on July 21, 1985 after we questioned the validity of the first GOES report in our draft audit report. The amount of total expenditures in both the first and revised GOES reports was the same (C.11,853,049). See Exhibit 2 for a comparative analysis of the IG draft report and the two GOES reports.

3. SETEFE Did Not Reconcile Its Bank Accounts to Books for ESF and P.L. 480 Local Currency Funds

SETEFE had not reconciled its bank accounts to its books for ESF and P.L. 480 local currency funds because a reconciliation procedure had not been established. Although a reconciliation procedure was not required, we believe it is sound business practice to help ensure the accuracy of SETEFE's accounting records and reports.

Recommendation No. 9

We recommend that USAID/El Salvador obtain from SETEFE evidence that it has undertaken to establish a procedure to reconcile its bank accounts on a monthly basis and submit these reports to USAID/El Salvador.

Actions Taken by USAID/El Salvador to Close Recommendation

This recommendation is closed upon publication of the report because of USAID/El Salvador corrective action. On March 22, 1985, the USAID obtained its first bank reconciliation from SETEFE. This reconciliation fully accounted for the differences between their book and bank balances. On July 2, 1985, SETEFE submitted additional bank reconciliations to the USAID through May 31, 1985. On July 12, 1985, SETEFE informed the USAID that bank reconciliations will be submitted to the USAID on a monthly basis and that they are opening the necessary bank accounts to segregate the funds provided by the different agreements.

Discussion

We found that SETEFE had not reconciled its bank accounts to its books for ESF and P.L. 480 local currencies because a reconciliation procedure had not been established. Reconciling bank accounts on a monthly basis is a sound business practice to help ensure the accuracy of records and reports. SETEFE had a book balance for its seven bank accounts of $20,308,635.88 as of December 31, 1984. However, the bank balance for the seven accounts totalled $24,880,167.55. The difference between the book and bank balances of $4,571,531.67 needed to be accounted for to ensure the accuracy of SETEFE accounting records and financial reports to USAID/El Salvador. For example the SETEFE financial report to the USAID as of December 31, 1984 showed a bank balance for its seven accounts of $19,587,130, which was not correct.

C. Verification of Import and Export Prices

The Central Bank established a price-checking system at the request of AID to prevent the overpricing of imports and the underpricing of exports in order to deter capital flight. Our first audit report of the Private Sector Support Progam, dated January 20, 1982, disclosed that the Central Bank had not implemented the planned price-checking system. Our second audit report, dated April 20, 1983, disclosed that the system had been established but that it was not operating effectively. We found that price-checking system did not: (1) independently select transactions for price verification, (2) review a sufficient number of import transactions, (3) maintain adequate files (4) prepare reports on price verifications or (5) have sufficient staff.

Since our last audit, the USAID took the following actions to improve the operations of the price-checking system.

- The price-checking unit was upgraded to a full department (Department of International Prices) and transferred to a more appropriate organizational location.

- The staffing of the Department of International Prices was increased from 3 to 8 professionals.

- Adequate reports on the results of price investigations were prepared and submitted to the USAID.

- The Department of International Prices established adequate files.

- The number of price verifications was increased.

- Arthur Young & Co. was awarded three different contracts to study the policy, procedures and controls of the Central Bank including the price-checking system.

Under its most recent AID contract Arthur Young & Co. is providing technical assistance and training to establish the price-checking system as an effective internal control mechanism for the approval of import and export transactions. Arthur Young & Co. is designing a mechanized system to correct most of the remaining procedural deficiencies in the price checking system. The contractor estimates that implementation of the mechanized system will begin in August 1985.

During our current audit we independently confirmed the validity of the findings of Arthur Young & Co. We also found that the Department of International Prices had not yet complied with USAID requirements to increase its staff and to use sampling procedures to select transactions for price verifications. However, prior to the completion of our audit, the USAID obtained Central Bank compliance with those requirements. In view of the corrective actions taken by USAID/El Salvador and those in process through the AID contract with Arthur Young & Co., our recommendations to improve the operations of the price-checking system with regard to import and export transactions are to be considered resolved with the issuance of this report. However, we plan to follow-up in the not-too-distant future to verify that the recommendations have been implemented via the mechanized system being designed by Arthur Young and Co.

USAID/El Salvador Comments

The USAID does not believe that capital flight through over/under invoicing is currently a problem as evidenced by Central Bank balance of payment data and corroborated by other observations (e.g., return of wealthy citizens) which have indicated the disminution or elimination of capital flight starting in 1983.

Office of Inspector General Response

Our review of the Central Bank data confirms the USAID statement. However, the Department of International Prices found that import transactions submitted to the Central Bank for approval in 1984 had been overpriced by $4.7 million.

1. Import Price Verification

The procedures used by the Department of International Prices to verify the prices of import transactions in order to deter capital flight can be improved. Specifically, (i) transactions to be reviewed were not independently selected, (ii) criteria for selecting transactions were too general, (iii) follow-ups by the Department of International Prices on price verification recommendations were not done, (iv) written policies to enforce sanctions against capital flight offenders were not established, (v) the agreed number of personnel were not hired, and (vi) information was not obtained from Salvadoran Customs on the results of its inspections of selected imports to determine if they coincided with the quantity and quality of the goods authorized for the transaction. As a result, the ability of the Department of International Prices to detect and control capital flight was hindered.

Recommendation No. 10

We recommend that USAID/El Salvador require the Department of International Prices of the Central Bank to:

a) exercise independence in accordance with Amendment No. 2 of the Memorandum of Understanding, dated July 24, 1984, by conducting statistically significant random samples of all approved import transactions.

b) establish procedures to ensure that all import transactions meeting the selection criteria established by the Department of International Prices are selected for price verification reviews.

c) revise criteria for selecting transactions for price investigation by using specific criteria such as tariff codes.

d) follow-up on price investigation recommendations.

e) establish a written policy to establish and enforce sanctions against capital flight offenders by adhering to Amendment No. 2 of the Memorandum of Understanding, dated July 24, 1984 (this recommendation is for the President of the Central Bank).

f) increase its staff to and maintain its level at ten professionals, as required by Amendment No. 2 of the Memorandum of Understanding, dated July 27, 1984.

g) obtain special reports from Customs on inspections of selected imports to verify that the value (quantity and quality) of goods imported coincide with the value authorized for the transaction.

Action Taken by USAID on Audit Recommendation

Recommendation No. 10 is to be closed on publication of this audit report because of actions taken or in process by USAID/El Salvador to implement the recommendation. While this audit was in process, the USAID took action to implement parts (a) and (f) of this recommendation. On February 18, 1985 the Department of International Prices established a procedure to verify the prices included in every 25th import permit application (part a). On February 1, 1985 the professional staff of the Department of International Prices was increased from 8 to 11 employees (Part f). The other parts of the recommendation should be corrected as soon as Arthur Young & Co., under its contract with USAID/El Salvador, completes its assistance to the Central Bank to implement a mechanized system for approving import and export transactions.

Background

Major concern had been expressed regarding the deliberate price manipulation of imported commodities for the purpose of diverting foreign exchange into private accounts outside of El Salvador. This practice, thought to be a major cause of capital flight, is both illegal and counterproductive to AID's overall objective of helping to restore El Salvador's economy.

One of the functions of the Department of International Prices is to deter capital flight through price verifications. The Department has made significant improvements to control price manipulation. Price investigation files have been created, monthly reports identifying the extent of capital flight averted have been prepared and personnel levels have been increased. Further improvements are also anticipated when mechanized procedures for import reviews are implemented.

For calendar year 1984, imports by El Salvador amounted to $1.1 billion. With the exception of Government-controlled imports estimated at $343.7 million, the majority of the remaining imports of $761.0 million should be verified in order to deter capital flight.

Arthur Young & Co. is providing technical assistance to the Department of International Prices to improve and mechanize its procedures. Most of the procedural weaknesses included in this finding should be corrected once the mechanized system is implemented.

Independence

To obtain maximum results, price verifications must be made with sufficient independence. One aspect of independence is the ability to freely select transactions. Our audit disclosed the independence of the Department of International Prices was impaired because another Central Bank unit (the Department of Exchange Control) selected transactions for verification. A 1983 Inspector General Report (No. 1-519-83-8) also cited insufficient independence as a problem area. Although some steps were taken to correct the problem, the corrective measures were not fully effective.

Since its inception, the Department of International Prices had never achieved full independence. Initially established in 1982 as a price-checking unit under the Office of the General Manager, its independence was limited because the Department of Exchange Control identified the transactions for it to verify. In January 1983, the price-checking unit was transferred to the Department of Exchange Control, but this did not improve its independence since another unit in the Department of Exchange Control continued to select the transactions to be verified. To correct this situation, the price-checking unit was made a full department in June 1983 under the Office of the President. Although this organizational change was made to ensure the independence of the Department of International Prices, procedures remained the same. The Department of Exchange Control still determined which and how many import transactions were to be verified.

Although the Department of Exchange Control selected transactions based on criteria established by the Department of International Prices, we found that the Department of International Prices had not established a procedure to verify that the transactions selected for price verification by the Department of Exchange Control met the established criteria. This procedure should be implemented to help the Department of International Prices achieve full independence.

Amendment No. 2 to the Memorandum of Understanding, dated July 27, 1984, asked the Central Bank to periodically conduct statistically significant random samples of all import transactions approved by the Central Bank to determine the reasonableness of prices. Our audit disclosed those reviews had not been made. Personnel at the Department of International Prices could not provide an adequate reason for not conducting the samples. These reviews would have provided a basis: (1) to verify the prices of import transactions not selected for price verification, and (2) to better define the selection criteria.

Selection Criteria

Guidelines established to select import transactions requiring price verification were too general in nature and, consequently, subject to interpretation. According to current procedures, 16 categories of commodities were identified as requiring verification by the Department of International Prices.

Products Requiring Verification

1. Solid Insecticides
2. Solid Herbicides
3. Liquid Herbicides
4. Solid Fungicides
5. Liquid Insecticides
6. Raw Materials/Pesticides
7. Vegetable/Seeds/Fruits
8. Pulverizers/Agricultural
9. De-creamers
10. Capital Goods/Agri-cultural
11. Vehicles
12. Industrial/Machinery
13. Equipment/Commerce
14. Capital Goods/Industry
15. Special Investigations
16. Fertilizers

Using statistical sampling techniques, we drew a random sample of 79 transactions and asked personnel at the Department of Exchange Control and the Department of International Prices which transactions should be selected for price investigation. Results showed the Department of International Prices selected 30 transactions (38%) not selected by the Department of Exchange Control. Since personnel at the Department of Exchange Control determine which transactions will be identified for price verification, the 30 transactions would not have been verified. Projecting the results of our sample, it is estimated that 1943 of 5116 import transactions approved for attribution during the period covered by our review probably would not be verified even though they met the criteria for verification as determined by the Department of International Prices.

To correct this problem, we believe that tariff codes rather than general commodity descriptions should be used as a basis for selecting transactions.

Follow-Ups

The Department of International Prices had not established procedures to follow-up on its price verification recommendations. When the Department of International Prices forwarded completed verifications to the Department of Exchange Control, it was assumed by all concerned that price verification recommendations would be implemented unless the Department of Exchange Control advised the Department of International Prices that it disagreed. To monitor compliance with its price recommendations, the Department of International Prices should follow-up to ascertain that corrective actions have been taken by the Department of Exchange Control.

Sanctions

Written policies to punish capital flight offenders were not established. Amendment No. 2 to the Memorandum of Understanding, dated July 24, 1984, requires the Central Bank to establish a policy to levy sanctions against those who overvalue imports in their application for foreign exchange. Existing law authorizes taking legal action against capital flight offenders. However, the Central Bank has not developed a written policy to implement those legal provisions.

The USAID advised us that the Central Bank had adopted an unwritten policy to levy sanctions against capital flight offenders but that it is very difficult to prove capital flight. They cited one instance where the Central Bank wanted to take legal action but they had to drop the case for lack of sufficient evidence.

Current procedures only require the offender to resubmit a previously denied application. Presumably, resubmitted applications would include acceptable prices. Hence, capital flight offenders can resubmit as many import applications as they wish without reprisal. Furthermore, given other internal control weaknesses previously cited, it would seem probable that suspect applications previously identified could be resubmitted and processed without detection.

Arthur Young and Co., under contract with AID, indicated they are developing a sanctions policy for Central Bank consideration. The implementation of this policy would be tied to a mechanized system being designed for approving import and export transactions. For example, the first-time offender could be given a warning letter, the second-time offender a 30-day suspension in processing import permits, the third-time offender a fine, and the fourth-time offender judicial action.

Staffing

The Department of International Prices could have done more price verifications if it had been fully staffed. During 1984, the department identified and deterred $4.7 million in capital flight. Although this is a significant amount, it only represents 4/10ths of one percent of the total value of imports approved by the Salvadoran Central Bank. Furthermore, two

transactions account for about $3.2 million of potential capital flight. A more accurate appreciation is obtained when one realizes that only 13.8 percent 12/ of the total value of non-price controlled imports for 1984 was verified. In addition to this 13.8 percent, an undetermined number of transactions were not sent to the Department of International Prices for verification because prices of the proposed imports fell within accpetable price ranges.

According to Amendment No. 2 to the Grant Memorandum of Understanding, dated July 27, 1984, the Salvadoran Central Bank agreed to increase the staff of the Department of International Prices to at least 10 professionals. However, we found that there were only 8 professionals working there in December 1984. The USAID said the staff of the Department of International Prices had been increased to 10 professionals in March 1984. The USAID gave us a copy of Central Bank telex which supported their contention that the staff had been increased to ten professionals. We interviewed three of the professional staff reportedly assigned to the Department of International Prices in March 1984. Two of them told us that they had never worked there. The other one said he worked there until March 1983 after which he was assigned to the Department of Exchange Control where be served as a liaison with the Department of International Prices.

Our audit also showed that one of the 8 professionals on board had been detailed for six months to the Agricultural Development Bank to assist in the procurement and importation of agricultural inputs. This person was assigned to the Department of International Prices on July 2, 1983, detailed out on August 1, 1984, and had not returned as of January 31, 1985.

Physical Inspection of Imported Goods

The Department of International Prices had not established a procedure to obtain special reports from Customs to verify that selected imports matched what was originally declared in the import documents. In order for the Department of International Prices to be effective in its efforts to curtail abuses in the import system, it is essential that some procedures be established to obtain this information. To implement such a system, the Department of International Prices should make lists of selected imported goods and provide the lists to Customs personnel. When the goods in question arrive, the Customs inspector should verify that the value of goods imported (quantity and quality) agrees with the value authorized for the transaction and provide a report to the Department of International Prices.

Conclusions

In order to effectively deter price manipulation, a major contribution to capital flight, it is essential that the Department of International Prices attain full independence. Since personnel of the Department of Exchange Control continuously meet the public, they are most vulnerable to outside influence in approving transactions. Independent selection of transactions to be reviewed for prices should be an effective deterrent against such influence.

Furthermore, in order to make adequate and sufficient verifications, criteria for selecting transactions for investigation must be clarified, some degree of compliance with the pricing recommendations must be obtained, sanctions must be imposed against capital flight offenders, personnel resources must be maintained at prescribed levels and imported goods should be inspected and appraised on a selective basis to ensure that actual and authorized quantities and qualities coincide. Recommendations in this finding should help to deter capital flight.

12/ USAID/El Salvador reported to AID/W in 1984 that the Central Bank was reviewing 83 percent of the price and non-price controlled imports. However, this percentage corresponded to planned rather than actual coverage.

2. Export Price Verification

The Department of International Prices has not adequately reviewed export transactions to deter capital flight. The Department of International Prices was established (at the request of AID) to verify prices of both import and export transactions in order to control capital flight. Controls to detect undervalued exports were inadequate and the number of verifications made was limited. In 1984, the Department of International Prices reviewed only 2/10 of one percent of the value of export transactions that would be subject to price verification. Consequently, there was no assurance that exports for 1984 were adequately screened to deter capital flight.

Recommendation No. 11

We recommend that USAID/El Salvador obtain from the Central Bank documentation attesting to the fact that it has:

a) appropriately increased the number of price verifications for export transactions.

b) established procedures for export price verifications similar to those established or recommended for the review of imports (see Recommendation No. 10).

Action Taken by USAID on Audit Recommendations

Recommendation No. 11 is to be closed upon publication of this audit report because USAID/El Salvador contracted Arthur Young and Co. to design a mechanized system for approving import and export transactions for the Central Bank. The Central Bank plans to begin the implementation of the system in August 1985.

Background

Exports are one method by which the Government of El Salvador obtains foreign exchange. Whenever an exporter receives foreign currency for his goods, he must sell it to the Central Bank. If an exporter purposely reports to the Central Bank his exports at a lower value than what was actually shipped, the quantity of foreign exchange received by the Salvadoran exporter beyond the reported export value constitutes capital flight.

Progress has been made regarding the institution of controls over exports and inflows of foreign exchange. For example, a computerized export control system has been designed and implemented which allows automatic verification of exporter data, such as account numbers, amounts authorized for exports, due dates for the return of foreign exchange, and balances pending. These computerized controls, along with other new requirements, should improve the flow of foreign exchange to the Government of El Salvador.

To ensure capital flight is minimized, export transactions must be screened to verify that export prices are not purposely undervalued. Since undervaluations result in reduced foreign exchange flows, preventing this practice is of vital importance. The Department of International Prices was also established to check prices on export requests. The importance of these verifications is more evident when one realizes that exports for 1984 were estimated at $760 million. Of this amount there were $512 million of exports for coffee, sugar and cotton that would not have to be price verified because they were exported and price-controlled by the Government of El Salvador. The balance of the exports ($249 million) could and should have been price verified.

Audit Results

Verification of export prices was inadequately performed. Procedures to require objective and impartial reviews of export transactions were non-existent. Also, the number of export transactions verified (16) was limited. Consequently, there was no assurance that potential price

manipulation of export commodities and the resulting capital flight was being detected.

For all export cases, price verifications are initially performed by the analysts in the Export Section of the Department of Exchange Control. These verifications consist mainly of using subjective judgment as to whether an export price is reasonable or not. This is not an effective system because an individual's perception of undervaluation is subject to numerous factors, including memory and outside influence. Since these analysts have continous contact with exporters, they are most likely to be influenced in their tasks. When an analyst concludes that an export transaction may be undervalued, he will compare the price to past prices for the particular product. Should the disparity in prices be significant, the transaction is either forwarded to the Department of International Prices or sent to the exporter for correction. In most cases, however, the exporter is notified and presumably the required corrections are made.

For the 1984 calendar year, the Department of International Prices reviewed only 16 export transactions valued at about $487,000. This only represents 2/10 of 1 percent of the $249 million of 1984 exports that were susceptible to price verification. More importantly, 4 of the 16 transactions were undervalued in the amount of $13,000. The only reason these prices were verified was because the Department of Exchange Control forwarded these transactions to the Department of International Prices for price verification. Since there are no controls or procedures to dictate what should be forwarded to the Department of International Prices for verification, no determination can be made on the degree of control necessary to prevent undervalued exports.

Conclusion

The undervaluation of exports can have adverse impact on the ability of El Salvador to fully recover from its economic plight. We believe that the Department of International Prices should significantly increase the number of export transactions reviewed and develop procedures to review export transactions similar to those established or recommended for the review of import transactions (see Recommendation No. 10).

USAID/El Salvador Comments

The USAID said that the Central Bank focused its price reviews on imports because AID funds have been used for imports and most of the exports are price controlled. The USAID is not anxious for the Central Bank to increase its review of exports. They believe the current level of review is sufficient; also the Department of International Prices will have to focus more of its efforts on imports starting in 1985 because AID/W has asked the Central Bank to review 100 percent of AID-financed import transactions.

Office of Inspector General Response

We believe a greater balance between the review of import and export transactions is needed to efficiently and effectively deter price manipulation and consequent capital flight. In 1984, 13.8 percent of the value of non-price controlled import transactions were reviewed while only 2/10 of 1 percent of the exports were reviewed. In our considered opinion, it is unnecessary to review 100 percent of the AID-financed imports (as requested by AID/W) to effectively deter capital flight. This can be done more efficiently on a selective basis using existing and recommended procedures. Resources saved by downgrading the review of AID-financed imports could be used to increase the number of export verifications. We strongly suggest that AID/W reconsider its decision to require a 100 percent review of the AID-financed import transactions.

D. Compliance and Internal Controls

1. Statutory Reports

The FY1985 Continuing Resolution required AID to periodically report to Congress on the degree of Government of El Salvador compliance with Memoranda of Understanding regarding the use of local currency. In its first report to AID/W on November 9, 1984, the USAID only reported one area of non-compliance with its 1984 Memorandum of Understanding. While the audit was in process, we advised the USAID that the Government of El Salvador had not complied with other provisions of the 1984 Memorandum of Understanding. In its report to AID/W on April 16, 1985, the USAID correctly reported five areas of non-compliance with the 1984 Memorandum of Understanding. The Government of El Salvador was unable to comply with most of the provisions because of unrealistic assumptions or insufficient resources. In one area, where compliance was feasible, the Government of El Salvador complied by submitting a plan to the USAID on March 19, 1985 for the liquidation of all outstanding self-help obligations established under the 1980-82 P.L. 480 Title I program agreements.

2. Other Areas of Non-Compliance

We also found that the Government of El Salvador had not complied with six other requirements of the program. As stipulated in the 1984 Memorandum of Understanding, the Government of El Salvador had not (1) increased its price verification staff to 10 professionals (see page 49), (2) conducted statistical samples of all approved import transactions (see page 47), (3) adopted a policy to levy sanctions against those who overvalued imports in their applications for foreign exchange (see page 48), and (4) prepared a credit study. Prior to the publication of this report, the Government of El Salvador complied with all of the above provisions except item (3) above. However, Arthur Young and Co. under its contract with AID is developing a sanctions policy. This policy will be linked to a mechanized system which the Central Bank plans to implement in August 1985.

We also found that the Central Bank had not complied with a USAID request to submit substitute transactions for transactions disallowed in Implementation Letter No. 24. On page 10 of this report we have included a recommendation to correct this problem which was closed prior to the publication of this report.

In addition to the above, we found that USAID/El Salvador and the Government of El Salvador had not complied with many of the eligibility criteria established under the program for the attribution of import transactions to cash transfers (see Section A of this report). These attribution deficiencies were corrected prior to the publication of this report.

3. Fragmented Management

At the beginning of our audit, we noted that USAID management of the Private Sector Support Program was fragmented. The USAID had not established centralized monitoring procedures to document and verify Government of El Salvador compliance with the provisions of the program agreements. The USAID Controller's role in monitoring compliance with the financial provisions of the ESF and P.L. 480 agreements and verifying the accuracy of Government of El Salvador financial reports had been limited. Individual program officers managed their own sub-elements with guidance and supervision coming only from top management. Given the extreme workload at that level of the USAID, this system was not practical because it was not feasible for top management to remain current on all aspects of the program. This situation was corrected during our audit. A Balance of Payments Committee was established to provide oversight and coordination of all activities relating to the implementation of the Private Sector Support Program. Also a centralized procedure was established to document and verify Government of El Salvador compliance with the provisions of program agreements. Finally the USAID plans to increase the role of its Controller in the financial monitoring of the program.

4. Control Improvements

Although the audit disclosed some weaknesses in controls, the USAID has over the life of the program taken many actions to improve controls, as summarized below:

- Arthur Young & Co. was contracted several times to strengthen the procedures of the Department of International Prices to identify and deter capital flight. Many improvements have already been made as a result of their review and more are planned.

- While only a few improvements had been made in the procedures to select transactions for attribution to AID financing, significant improvements are planned to be implemented in 1985. The FY 1985 continuing Resolution required that AID dollar disbursements be placed in a special account to finance eligible import transactions. This will replace the attribution procedure used through 1984. Also, Arthur Young and Co., under a contract with AID is designing a mechanized system to select transactions eligible for AID financing.

- Starting in 1984, the Government of El Salvador was required to deposit ESF local currency generations in special accounts. Prior to this, ESF local currency was accounted for by an attribution process.

- In 1984 the USAID required the Government of El Salvador to audit activities financed with P.L. 480 local currency generations.

E. Other Pertinent Matters

The Private Sector Support Program has made significant progress in helping to stabilize the Salvadoran economy. Since its inception in December 1980, AID had (through December 1984) transferred $399.9 million to the Government of El Salvador for balance of payments support. These funds covered 10.6 percent of the Government of El Salvador foreign exchange requirements for imports.

This program as well as other U.S. government and other donor programs have helped to arrest the decline in real Gross Domestic Product (GDP) which started in 1979. In 1983, the decline was completely arrested. The Central Bank has estimated that a positive growth rate of about 1.5 percent was achieved in 1984. However, real per capita GDP will continue to fall in 1984 since the population is growing at about 3 percent per year. To arrest this decline, the real GDP would have to increase in excess of the population growth rate.

An economic study done by the USAID in November 1984 found that El Salvador's 1984 real per capita GDP stood at only about 65 percent of its 1978 level. To reverse this decline and to equal 1978 real per capital GDP levels by the end of this decade -- which is consistent with the goals set forth by the National Bipartisan Commission on Central America -- real per capital GDP growth of about 3.3 percent per year would be required.

The USAID also stated in its 1984 study that the most important remaining stabilization tasks will be the reduction of the public sector fiscal deficit and the nation's dependence on extraordinary levels of external financing, such as ESF and P.L. 480, to redress the balance of payments deficit.

Government of El Salvador deficits which increased greatly over the past five years have begun to decline. In 1979, the deficit stood at $39.7 million but since then it has averaged $208 million a year. The deficit would have been much higher had AID not provided budgetary support under the Private Sector Support Program. The deficit is due to large increases in current expenditures which have risen nearly twice as fast as current revenues since 1978. The increase in expenditures has been due to increases in defense spending and high priority programs such as public sector restoration, aid to displaced persons and implementation of an agrarian reform. However, that trend was reversed in 1982 and since then current revenues have increased

almost twice as fast as current expenditures. As a result, the 1984 estimated fiscal deficit has fallen to its lowest level ($147.5 million) since 1979. Government of El Salvador revenues have increased because of improved administration and tax increases.

The balance of payments deficits for 1984 and 1985 were estimated at $244 and $245 million respectively. These deficits need to be externally financed (mainly with U.S. Government assistance) in order to pay for sufficient imports to maintain and/or increase private sector production. The balance of payments disequilibrium has been due to:

- The internal armed conflict and its effects on export sector production.

- An overvalued exchange rate which discourages exports and encourages imports, thus resulting in a scarcity of foreign exchange.

- Low prices for certain export crops.

- The contracting Central American Common Market, and

- Inappropriate government policies toward the private sector, discouraging production and exports.

To help stabilize the economy, the USAID has tied economic assistance under the Private Sector Support Program to improvements in Government of El Salvador's economic policies and programs.

Policy improvements already made by the Government of El Salvador include:

- Transfer to the parallel market of 28.1 percent of export transactions and 41.9 percent of import transactions since July 1982. This transfer of commercial transactions from the lower official exchange rate (C. 2.50 = $1.00) to the higher parallel market rate (C. 4.00 = $1.00) is resulting in a gradual devaluation of the Salvadoran currency (colon). This provides more colones to the export sector and, thus, encourages increases in investment and production. On the other hand, the devaluation increases the cost of imported goods in terms of colones, which may be inflationary. The devaluation of the colon would encourage exports and discourage imports, helping to reduce the balance of payments deficit and external financing requirements.

- The Government of El Salvador doubled its stamp tax in mid-1983 and increased electric power rates by 40 percent during the first half of 1984. Salary increases to its lowest paid public servants were held to 10 percent and all vacant government positions were abolished. These changes helped reduced the 1984 fiscal deficit.

PART III - EXHIBITS AND APPENDICES

RESULTS OF STATISTICAL SAMPLE OF 79 TRANSACTIONS 1/ ACCEPTED BY USAID FOR FINAL ATTRIBUTION TO AID DISBURSEMENTS UNDER AMENDMENT NO. 4 TO THE GRANT AGREEMENT

Sample No.	Importer	Amount Attributed	Type of Transac. 2/	Areas of Non Compliance With Eligibility Criteria 3/										
				Documentation			FOB Value 5/	Other Areas						
				None	Incomplete	Total		Import Period 4/	Type Of Commodity	Industrial Subsector	U.S. Source	U.S. Origin	Financed By GOES	Cumulative Total
1	Emb.Salvadorena,S.A.	$ 1,982	L/C	-	-	-	-	-	-	-	-	-	-	-
2	Prod.Aliment.Diana	24,705	L/C	-	-	-	-	-	-	-	-	-	-	-
3	Siderurgica Tineti,SA	8,375	L/C	-	-	-	-	-	-	-	-	-	-	-
4	Industrias Duraflex	101,259	L/C	-	-	-	-	-	-	-	-	-	-	-
5	Celpac,S.A.	25,755	L/C	-	-	-	-	-	-	-	-	-	-	-
6	Industrias Plasticas	82,909	L/C	-	-	-	-	-	-	-	-	-	-	-
7	Ing.Oscar M. Jaime	4,833	S/C	X	-	X	-	X	-	-	-	-	-	X
8	Llantas y Renovados,SA	31,023	L/C	-	-	-	X	-	-	-	-	-	-	-
9	Tropigas de Cent.Am.	2,221	S/C	-	X	X	-	X	-	-	-	-	-	X
10	Autom.Salvadorenos,SA	227	S/C	-	X	X	-	X	-	-	-	-	-	X
11	Estereofonica 92	165	S/C	-	X	X	-	-	-	X	-	-	-	X
12	Drog.Centroamericana	888	S/C	-	X	X	-	-	-	-	-	-	-	-
13	R.Nunez,S.A. de C.V.	23,369	S/C	-	X	X	-	X	-	-	-	-	-	X
14	Textufil, S.A.	6,399	S/C	-	X	X	-	X	-	-	-	-	-	X
15	La Aurora,S.A.	1,442	S/C	-	X	X	-	X	-	-	-	-	-	X
16	Dist. Orellana	478	S/C	-	X	X	-	X	-	-	-	-	-	X
17	Kimberly Clark de C.A.	866	S/C	-	X	X	-	X	-	-	-	-	-	X
18	Sigma,S.A.Div.Kontein	5,150	S/C	-	X	X	-	X	-	-	-	-	-	X
19	Talleres Sarti, S.A.	5,154	S/C	-	X	X	-	-	-	-	-	-	-	-
20	Cementos del Salvador	23,041	S/C	X	-	X	-	X	-	-	-	-	-	X
21	Julio Cesar Romero	85,571	S/C	-	X	X	-	-	-	-	-	-	-	-
22	Ind.Nacional Textil	3,180	S/C	-	X	X	-	-	-	-	-	-	X	X
23	Maquinsal, S.A	4,524	S/C	-	X	X	-	-	-	-	-	X	-	X
24	Fab.Helados Rio Soto	398	S/C	-	X	X	X	X	-	-	-	-	-	X
25	Repuestos Didea,S.A.	87	S/C	-	X	X	-	X	-	-	-	-	-	X
26	Pozos y Riego, S.A.	6,638	S/C	-	X	X	-	-	-	-	-	-	-	-
27	Industria Unisola	5,055	S/C	-	X	X	X	X	-	-	X	-	-	X
28	ARCO Ingenieros	35	S/C	-	X	X	-	X	-	-	-	-	-	X
29	Dist.Fotografica	7,355	S/C	-	X	X	-	-	-	-	-	-	-	-
30	Edif.Cuscatlan	2,304	S/C	-	X	X	-	-	-	-	-	-	-	-
31	Corcho & Lata,S.A.	6,857	S/C	-	X	X	-	-	-	-	-	-	-	-

Sample No.	Importer	Amount Attributed	Type of Transac.	Areas of Non Compliance With Eligibility Criteria: Documentation None	Documentation Incomplete	Documentation Total	FOB Value	Other Areas: Import Period	Type Of Commodity	Industrial Subsector	U.S. Source	U.S. Origin	Financed By GOES	Cumulative Total
32	ADOC,S.A.	$ 28,080	S/C	-	X	X	X	-	-	-	-	-	-	-
33	Molinos de El Salvador	19,120	S/C	-	X	X	-	-	-	-	-	-	-	-
34	La Princesa, S.A.	92	S/C	-	X	X	-	-	X	-	-	-	-	X
35	MEDIDENT, S.A.	1,724	S/C	-	X	X	-	X	-	-	-	-	-	X
36	Laboratorios Vijosa,SA	570	S/C	-	X	X	-	X	-	-	-	-	-	X
37	Salvador Machinery	55	S/C	-	X	X	-	X	-	-	-	-	-	X
38	Ind.Sintetica, C.A.	126	S/C	-	X	X	X	X	-	-	-	-	-	X
39	Circ.Teatro Nacional	1,612	S/C	-	X	X	-	X	-	X	-	-	-	X
40	Import. de Repuestos	4,651	S/C	-	X	X	-	X	-	-	-	X	-	X
41	Pezca, S.A.	1,515	S/C	-	X	X	-	-	-	-	-	-	-	-
42	Emb.Tropical, S.A.	2,198	S/C	-	X	X	-	-	-	-	-	-	-	-
43	Ref.Pet. Acajutla	149,574	S/C	-	X	X	-	-	-	-	-	-	-	-
44	Radio Cadena Central	21	S/C	-	X	X	-	-	-	X	-	-	-	X
45	Prestegard Electro,SA	595	S/C	X	-	X	-	-	-	-	-	-	-	-
46	Coop.Alg.Cuscatlan	2,314	S/C	-	X	X	-	-	-	-	X	-	-	X
47	Optica Emerson	1,745	S/C	X	-	X	-	-	-	-	-	-	-	-
48	Juan F. Granados	1,402	S/C	X	-	X	-	-	-	-	-	-	-	-
49	Llantas Vifrio	291	S/C	X	-	X	-	-	-	-	-	-	-	-
50	Aguilar A.Hijos & Cia.	1,500	S/C	X	-	X	X	-	-	-	-	-	-	-
51	Drogueria Lainez	7,723	S/C	X	-	X	-	-	-	-	-	-	-	-
52	La Prensa Grafica	465	S/C	X	-	X	-	-	-	-	-	-	-	-
53	Sigma, S.A.	6,825	S/C	X	-	X	X	-	-	-	-	-	-	-
54	Optica Alemana	350	S/C	X	-	X	-	-	-	-	-	-	-	-
55	3M Interamericana	85	S/C	X	-	X	-	-	-	-	-	-	-	-
56	Inmobiliaria Gutierrez	931	S/C	-	X	X	-	-	-	-	-	-	-	-
57	Editora El Mundo,S.A.	1,032	S/C	X	-	X	-	-	-	-	-	-	-	-
58	Lab.Clinica Samayoa	170	S/C	X	-	X	-	-	-	-	-	-	-	-
59	La Constancia	402	S/C	X	-	X	-	-	-	-	-	-	-	-
60	Aparicio & Cia.	6,309	L/C	X	-	X	X	-	-	-	-	-	-	-
61	CONELCA	750	L/C	X	-	X	-	-	-	-	-	-	X	X
62	Ind.Comercial Papelera	30,803	L/C	X	-	X	-	-	-	-	-	-	-	-
63	Siemens, S.A.	8,314	L/C	-	-	-	X	-	-	-	-	-	-	-
64	Agroproesa	99,207	L/C	X	-	X	X	-	-	-	-	-	-	-
65	Industrias Quimicas	850	L/C	-	-	-	X	-	-	-	-	-	-	-

Sample No.	Importer	Amount Attributed	Type of Transac.	Areas of Non Compliance With Eligibility Criteria: Documentation None	Documentation Incomplete	Documentation Total	FOB Value	Other Areas: Import Period	Type Of Commodity	Industrial Subsector	U.S. Source	U.S. Origin	Financed By GOES	Cumulative Total
66	Laboratorios Generix	10,055	L/C	X	-	X	-	-	-	-	-	-	-	-
67	Plasticos y Novedades	2,654	L/C	X	-	X	X	-	-	-	-	-	-	-
68	Perfumes Carrel de CA	10,859	L/C	-	-	-	X	-	-	-	-	-	-	-
69	Industrias Unidas	224,378	L/C	X	-	X	-	-	-	-	-	-	-	-
70	Industrias Vimtaza	10,110	L/C	X	-	X	X	-	-	-	-	-	-	-
71	Martinez y Saprissa	34,215	L/C	X	-	X	-	-	-	-	-	-	-	-
72	Corsal, S.A.	23,718	L/C	-	-	-	-	-	-	-	-	-	-	-
73	Fab.C.A. de Lapices	24,688	L/C	-	-	-	-	-	-	-	-	-	-	-
74	Drogueria Cuscatlan	8,123	L/C	X	-	X	-	X	X	-	-	-	-	X
75	Laboratorio Ferson	3,297	L/C	X	-	X	-	-	-	-	-	-	-	-
76	Juan Atala Nasser	57,264	L/C	X	-	X	-	-	-	-	-	-	-	-
77	Cooperativa Cuscachapa	102,821	L/C	X	-	X	-	X	-	-	-	-	-	X
78	Salvaplastic, S.A.	29,485	L/C	-	-	-	-	-	-	-	-	-	-	-
79	Drog.Nueva San Carlos	22,215	L/C	X	-	X	X	-	X	-	-	-	-	X
	TOTALS	$1,417,528		29	37	66	15	22	3	3	2	2	2	30
	PERCENTAGE OF NON-COMPLIANCE			36.7	46.8	83.5	19.0	27.8	3.8	3.8	2.5	2.5	2.5	37.9

1/ We did an attribute sample to determine how many import transactions accepted by the USAID for final attribution against AID disbursements did not comply with the eligibility criteria established for the program. The 79 transactions were randomly selected from an universe of 5116 transactions. representing $75 million disbursed by AID on September 28, 1982 under Amendment No.4 to the grant agreement. Confidence limits were set at 90 percent, the expected error rate at 5 percent and the sample precision size at plus or minus 4 percent. In other words, there is a 90 percent probability that the sample selected will fall between 1 and 9 percent of the true error rate of the population. Since this is an attribute sample, only the number of transactions and not dollar values can be projected. To illustrate this, 65.8 percent of the transactions in the sample were supplier credit transactions but they only represented 30.4 percent of the value of all transactions in the sample.

2/ L/C is the acronym for a letter-of-credit transaction. S/C is the acronym for supplier credit transaction (Sample transaction Nos. 60 through 70 represented letter of credit transactions not liquidated when accepted for attribution by the USAID).

3/ The eligibility criteria established to qualify transactions for attribution were as follows:

- Documentation - Central Bank files were to contain the following documentation to make them eligible for final attribution (Implementation Letter No. 5 dated June 26, 1982).

  a. Letter-of-Credit Transactions
  Application for Foreign Exchange "Form 15"
  Letter of Credit
  Commercial Invoice
  Bill of Lading or Airweigh Bill
  Import Certificate

  b. Supplier Credit Transactions
  Same as above except evidence of payment by the Central Bank instead of a letter of credit.

- FOB Value - Implementation Letter No. 5, dated June 26, 1982, provided that the import transactions should be attributed to AID financing at FOB values. Implementation Letter No. 22 dated March 21, 1984 provided that in the event FOB values are not available, they can be derived from CIF values using a table of percentages for all eligibile imports that have arrived in El Salvador since March 26, 1982.

- Import Period - The amended grant agreement provided that over a period of 12 months from the date of each disbursement under the agreement, the GOES would make available an equal amount of foreign exchange for the importation of goods from the United States. The USAID told the auditors that if the commodities arrived in El Salvador as evidenced by the date of the import certificate or the Application for Foreign Exchange "Form 15" was approved during the 12-month period following each disbursement, then the transaction would be eligible for attribution to that period. These were the criteria the auditors used to determine whether a transaction fell withing the eligible import period. USAID implementation letters only indicated that the commodities had be imported before the end of the 12-month period.

- Type Of Commodities - The grant agreement provided foreign exchange made available by the GOES could only be used for the importation of raw materials, capital goods, agricultural imports and spare parts. The auditors used Webster's Dictionary to attempt to define the commodity categories.

- Industrial Subsectors - Amendment No. 4 to the grant agreement provided that the commodities should be imported by the private sector and that the eligible subsectors were manufacturing, agro-industrial, commerce, transportation and energy. The auditors used Webster's Dictionary to help define the industrial subsectors.

- U.S. Source - Amendment No. 4 to grant agreement provided that the commodities be imported from the United States. The USAID expanded the source to include imports from Caribbean Basin Initiative and designated Central American Common Market countries and Panama using grant funds provided under Amendment No. 10 to the grant agreement, dated December 15, 1984.

- U.S. Origin - Implementation Letter No. 22, dated March 21, 1984, which covered Amendement No. 4 and subsequent Amendments to the grant agreement provided that imported commodities should be of U.S. origin. The USAID plans to eliminate the U.S. origin requirement for transactions to be attributed to disbursements retroactive to Amendment No. 3.

- Financed by GOES - The grant agreement provides that the GOES is to make available foreign exchange for the import transactions.

4/ Sufficient information was not available to determine compliance for sample transaction Nos. 23, 34, 48, 60, 62, 66, 67, 70, 71 and 79.

5/ - Sample transaction No. 8 was attributed at less than FOB.
- Sample transaction Nos. 24, 27, 38, 63, 64, 65, and 79 were attribured at more than FOB.
- Sample transaction Nos. 32, 50, 53, 60, 67, 68 and 70 were attributed at CIF. The FOB value were not known for these transactions.
- Sufficient information was not available to determine compliance with sample transaction Nos. 19, 43, 48, 56, 62, 66, 69 and 72.

INELIGIBLE EXPENSES INCURRED BY CENTRAL ELECTION COUNCIL
CONTAINED IN MINISTRY OF FINANCE
BUDGET REPORT AS OF 12/31/84

Budget Code	Description	IG Draft 1/ Audit Report 6/21/85	GOES Reports 4/23/85	GOES Reports 7/21/85
	Salaries & Wages			
11	Salaries for Service Personnel	C. 796,042.64	C. 48,420.23	C. 962,284.81
12	Sick Pay	-	-	127.00
13	Salaries for Maternity Leave	3,181.03	-	3,181.03
16	Social Security Taxes	20.783.44	-	26,672.55
31	Fees for Board of Directors	26,800.00	-	26,800.00
33	Overtime	247,907.45	-	247,907.45
34	Bonus Pay - Permanent Personnel	13,000.00	-	23,410.32
35	Termination Pay - Labor	-	-	1,850.40
36	Termination Pay - Contractors	-	-	48,006.09
67	Labor	-	-	20,319.49
	Total Salaries & Wages	C.1,107,714.56	C. 48,420.23	C.1,360,559.14
	Publicity			
111	Advertisement and Publicity	C.1,186,976.28	C.1,186,976.28	C.1,186,976.28
	Total Publicity	C.1,186,976.28	C.1,186,976.28	C.1,186,976.28

1/ We only included salaries for management (account 101) and for organization of elections (account 103) since we felt these personnel could have had influence on the outcome of the elections. Account 101 included salaries for the president, vice-president etc. Account 103 included salaries for poll watchers and some computer personnel. All salaries charged to account 102 for general administrative services (drivers, janitors,etc.) were excluded since we did not believe these personnel could influence the outcome of the election.

Budget Code	Description	IG Draft Audit Report 6/21/85	GOES Reports 4/23/85	GOES Reports 7/21/85
	Per Diem			
51	Per Diem to Gov't Personnel	C. 2,770.00	C. -	C. 2,770.00
53	Per Diem to other Countries	14,825.00	-	14,825.00
	Total Per Diem	C. 17,595.00	C. -	C. 17,595.00
	Various Non-Personnel Services			
192	Social Entertainment	C. 598,835.97	C. -	C. 598,835.97
	Total Social Entertainment	C. 598,835.97	C. -	C. 598,835.97
	Nourishment			
201	Food	C. 23,135.40	C. -	C. 23,135.40
202	Alcoholic Beverages	7,703.70	-	7,703.70
	Total Nourishment	C. 30,839.10	C. -	C. 30,839.10
	Grand Total	C.2,941,960.91	C.1,235,396.51	C.3,194,805.49
	Dollar Equivalent	$ 1,176,784.36	$ 494,158.60	$.1,277,922.20

58-220 O—87——15

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A. I. D. MISSION
TO EL SALVADOR
C/O AMERICAN EMBASSY
SAN SALVADOR, EL SALVADOR, C. A.

Appendix 1

MEMORANDUM

TO: Coinege N. Gothard, Jr., RIG

FROM: Ronald A. Witherell, [illegible]IR

SUBJECT: Comments on Draft Audit of Private Sector Program Support, Project No. 519-0267

DATE: August 23, 1985

The following comments are the USAID's response to the subject Draft. We have attached documents where appropriate to support our position, and where necessary to support actions taken on recommendations contained in the report.

Overall Comments and Observations - The revised draft represents a significant improvement over the previous one. We appreciate the changes and the inclusion of some of our comments or recommended changes. The executive summary, in general, fairly states both the problems found by the auditors and the accomplishment of the objectives of the program. However, we continue to have some problems with certain aspects of the report.

The Mission believes that in general the objectives of the program have been met and dollars provided to support the program were properly expended in accordance with Congressional mandates. While we accept the fact that documentation to support such a position has not always been maintained as well as should be expected, we reject the audit report conclusion that such documentation was never available thus leaving the reader to conclude that a massive misappropriation of taxpayer's funds took place. The Arthur Young & Company Report of 15 August 1985, (Exhibit A) provides the basis for this Mission to believe that while procedures on which the audit report dwells so extensively were not the best, the essence of the program was fully complied with and fully accounted for.

One further overall observation before getting into the details. The report, in several places, states that the observations concerning procedures at the Central Bank are historical in nature and that the USAID and the Bank have taken many steps to correct the problems cited in the report. The sections concerning the local currency program are similar. Procedures already have been changed and/or corrective action was in progress at the time of the audit. However, because of the volume of the report and the format, which discusses in detail the findings after each recommendation, the reader tends to become confused as to what is the real current situation, i.e. which issues demand immediate action, and what has been or is being corrected by the USAID and/or the Bank. If this is corrected by introductory statements and a more concise discussion of findings, the flow of the document and the information passed to the reader would be much improved.

Specific Comments:

Page ii - The last sentence of the first paragraph refers to export price checks and "capital flight."

Throughout the report the use of the term "capital flight" as it relates to import/export pricing should be changed to "over/under invoicing." In addition, price manipulation should not be referred to as a "cause" of capital flight. It is a means of capital flight.

However, all available evidence points to the conclusion that this particular means of capital flight has been stemmed. An important indicator is the level of Private capital flows, which includes Errors and Omissions in the balance of payments. This item went from being large and negative in the first year's of El Salvador's current crisis, suggesting large capital outflows, to small and/or positive, which is regarded as normal, in 1983 and 1984. These figures are presented in Attachment A where the Balance of Payment figures for the last ten years are presented.

If references to capital flight appear in the final report the following USAID comment should be included.

> The USAID does not believe that capital flight through over/under invoicing is currently a problem as evidenced by BCR balance of payment data and corroborated by other observations (e.g., return of the wealthy elite) which have indicated an absence of capital flight starting in 1983.

Page iii- We request that the third sentence read "Our review confirmed the findings of USAID/ES and Arthur Young & Co. . . ."

In reference to the third paragraph we comment later on a GC opinion concerning retained interest on PL 480 credit sales. You may wish to change this paragraph based on our later comments.

In page iii of the Executive Summary part of the report, the auditors mention that since 1980 the ESF grant agreements govern the use of local currency funds generated from the sale of P.L. 480 commodities. In 1984 and 1985, the instruments which govern P.L. 480 generations have been the P.L. 480 Memoranda of Understanding. The ESF MOU, however, incorporates the ESF MOUs as a reference. (Attachment B)

3 - The second and third full paragraphs are somewhat unclear as to whether the statements are background or criticisms. We believe that the elimination of the words "However" in both paragraphs would make clear that it is background.

In addition, the report states that starting in 1982 and continuing through 1983, the local currency made available was not tied to specific uses. This is incorrect. Uses of PL 480 and ESF generated currencies were governed by separate MOUs which were part of the 1982 and 1983 Fiscal and Monetary Program. All the local currency was atributed to specific budgetary support uses. (Attachment C)

We request that the second and third paragraph be rewritten accordingly.

10 - We request that the following note be inserted at the bottom of this page as follows:

> Pursuant to USAID contract No. 519-0177-C-00-5410-00 with Arthur Young & Company (AY), a complete review of the transactions attributed under Amendment 2,3,and 4, was undertaken. The report contains a listing of transactions deemed eligible and attributable for Amendments 2, 3 and 4.

11 - We request that the last paragraph on this page be moved to become the opening paragraph under "Part II - Results of Audit." The first sentence should then be changed to delete "this and the following report sections" and to insert in lieu thereof "Section A and B which follow."

14 - As stated in the opening comments above, we accept that many of those transactions selected by the IG could not be located in the files extant at the BCR at the time of the IG review. We do not

concur that at the time of attribution the documentation was not available to support attribution. In fact, while conducting their review of transactions for attribution to amendments 2,3 and 4, AY was unable to find a significant number of the files which were reviewed by the auditors. Therefore, while the finding supports poor filing procedures by the BCR, the same cannot be used to reach the conclusion that "many of the transactions did not qualify for attribution." Our position is supported by the auditor's own conclusions (Second paragraph on page 16.) and the AY report.

We therefore request that the wording of the second sentence read, "During our review we were unable to determine whether all transactions reviewed would qualify for attribution because . . ."

Alternatively the paragraph should include USAID comments as follow:

> USAID/ES agrees with the findings indicating the BCR's poor filing procedures. However the USAID does not agree that documentation was never available to support attribution. This conclusion is based on the auditor's comments in the draft report and the results of the AY review.

17 - The USAID comment should read, "The USAID commented that it believed past documentation requirements had been unrealistic and that they plan to reduce the requirements to the minimum necessary to provide adequate information to ascertain that transactions have been completed and paid and meet all eligibility requirements."

20 - We do not agree with the term "lacking" in the heading for the section starting on this page. While the criteria and procedures referenced may have been somewhat general, they allowed sufficient flexibility to permit the program to function without undue rigidity.

This is obviously an area of subjective judgement. The audit report comments themselves are subjective. We agree with the general objectives stated by the report in the last paragraph on page 20. However, the report describes a suggested program significantly different from the existing one.

Report Suggestions	Project 0267
Commodities -	
raw materials	raw materials
intermediate goods	intermediate goods
capital goods	capital goods
	spare parts
	agricultural inputs
Sectors -	
industry	manufacturing
agribusiness	agroindustrial
agriculture	commerce
construction	transportation
	energy

The suggestions in the draft audit report are no more definitive and are more limited than those in the existing project. We recommend that the whole section be deleted. If not, the following USAID comment should be included:

> The USAID believes that the existing categories and sectors are an appropriate level of definition to permit accomplishment of

project objectives, and that the alternative commodities and sectors offered by the auditors are no more definitive than the ones now in use. Moreover, the new computer selection process of the Central Bank will assist in assuring that transaction selected fall within the established categories. The system uses the International Tariff Code (NAUCA) and Industrial Use Code (CIIU) to assist in identifying eligible transactions. Physical review of some of the documentation will still be required to assure eligibility. The NAUCA code has been used in the BCR since 1980; the CIIU code since 1984.

22 - We disagree with the ineligibility of three of the seven transactions on page 22. AY reviewed the documentation on all transactions. In some cases this required visits to the importers. As a result of their review we have the following comments:

A close examination of the documentation (Attachment D) for sample No. 29 which referred to "Films" and the "retail market" revealed the products to consist of KODAK bulk processing chemicals and X-Ray films, neither of which were destined for the retail market. Moreover, we do not believe that "finished product" would be a rationale sufficient to determine ineligibility, particularly in view of the fact that tractors, fertilizers, machinery and the like, which are eligible, are also finished products.

Transactions No. 11 and 44 were rejected by the auditors because they considered a commercial radio station to be outside the eligible subsectors. In our opinion, privately owned radio stations are part of the commercial sector in a free enterprise economy and are thus eligible under the criteria. Moreover, replacement parts for electronic equipment are commodities reasonably included in the program.

The result is that the above three examples inflated the IG statistics by 75%.

The bottom line, however, is that, as mentioned earlier, we have established procedures to record both NAUCA and CIIU codes as well as conduct a physical review of the documents to determine eligibility. However, it will and should continue to remain a partly subjective process.

If you decide to include any of the above transactions in the report, our comments should also be included.

23 - Obviously from the above, we do not concur in the conclusion at the top of the page to the degree implied by the report. If the final report contains this conclusion then it should also contain a comment on our objection along the following lines:

While the mission agrees to some refinement in the procedure for the application of appropriate NAUCA and CIIU codes to assist in determining product eligibility, it maintains that a flexible interpretation is required and final decisions must be based on a direct review of the documents involved.

26 - The first full sentence on the page starting "Our sample.." should be modified to insert after "files" the words "which we reviewed."

27-30 - The discussion of the eligible import period and the 22 transactions considered ineligible by the auditors should be reviewed to assure consistent application of the eligibility criteria. There is a significant difference in the actual date between "arrival in El Salvador" and the date of the import certificate. This is the case if one interprets "arrival in El Salvador" to be arrival at

customs. The report is not consistent in the use of terms to define eligibility periods. See pages 24 and 28 and the footnote on import period to Table I.

32 - The reference to U.S. origin is inappropiate since it misleads the reader into believing U.S. origin to be an eligibility criteria. An AID legal opinion specifically struck down U.S. origin as being a requirement for the 0267 program (Attachment E). This decision was made retroactive to Amendment No. 3, not just those subsequent to Amendment #4. While the Mission and the BCR were aware of this eligibility change, and had taken it into consideration, no Implementation Letter was issued to reflect the change of policy until P.I.L. No. 32 (Attachment F).

If changes are not made then the following USAID comment is to be included:

> USAID/ES maintains that based on a GC opinion dated April 16, 1984 and the language of the Authorization for the project, origin is not a criteria in determining eligibility. While operating on this assumption for some time, on June 5, 1985 in PIL No. 32 the mission formally clarified this position retroactive to Amendment No. 3.

33 - The Mission's policy, as reflected in P.I.L. No. 32, is to accept for attribution all eligible transactions at CIF value. In order to comply with the spirit and intent of the ESF program, CIF values should be used if they correspond with the foreign exchange amount paid by the bank. Therefore, the IG suggestion to use FOB values is inappropriate and is not in conformance with mission decisions.

If changes are not made then the following USAID comment should be included:

> USAID/ES disagrees with attribution of only FOB values. The full value of U.S. Dollars made available, including insurance and freight, should be used in calculating the value of eligible transactions.

40-42 - We appreciate the credit advanced the Mission for its effort in the area of Price Checking as witnessed by the closing of recommendations Nos. 6, 10 and 11. We are of the opinion that in view of the closing of these recommendations the accompanying comments seem superfluous and seem to attempt to highlight negative aspects of our program which were identified and in process of correction by the mission.

43-50 - This section contains several comments concerning the retention of interest on credit sales by the Salvadoran banks. The implication is that the banks or the GOES are in some sort of violation of project conditions and that the USAID has been delinquent in not correcting this situation. The last sentence on page 44 contains a weak statement of our position. The IG has a copy of a GC opinion that states that the interest earned in these circumstances is not considered part of the PL 480 proceeds and is not subject to AID control (Attachment G). We have no objection to the IG expressing their opinion on how the GOES ought to use its money. However, the rewrite of this section should clearly state the GC opinon, and that the IG is recommending another policy for USAID consideration even though not required.

However, in spite of the above comments and the request that the section be rewritten, the GOES on its own has included provisions in its new agreements to recapture interest. Agreement has been reached with both the BHN and the Agricultural Development Bank. (See Attachments O and P)

We have no evidence to support the allegation that there was ever any delay in implementation of any projects as a result of delay in deposit of PL 480 proceeds. Unless the IG has adequate documentation to back up the allegation it should be dropped from the report.

We have no evidence to support the allegation on page 47 that the Agricultural Development Bank either intended to purchase a building or intended to utilize PL 480 proceeds to do so. Unless the IG has adequate documentation to support this allegation it should be dropped from the report.

50-55 - Our main problem with this section is one of timing. The auditors reviewed the situation at a time when the process of review and acceptance of transactions was in process and not complete. This is evidenced by the statement that some ₡ 406,170 were still unliquidated. These items should not be termed by the report as ineligible since there was no basis for determination one way or the other. While we do not have any problem with the substance of the recommendation, except that it is premature to imply we had not done our job, the recommendation should be dropped and the section rewritten to place the comments in their proper time frame and to include observations by the auditors, but not a formal recommendation.

Disbursements for expenses of the Elections Central Council (CCE), for the 1984 elections process, were covered by the GOES' own resources until the end of the year, when these expenses were submitted to A.I.D. for reimbursement. The GOES submitted the first preliminary report on February 28, 1985, (Attachment H) which included the CCE in global figures. On April 23, 1985, (Attachment I), only a few days before the suditors concluded their field work, the USAID received an additional report with a detailed breakdown of expenses. This latter report appears to have been the basis for the comments made by the auditors.

Following receipt of these documents, the USAID held discussions with the Ministry of Finance. The above documentation was insufficient to determine the eligibility of the expenses incurred. Accordingly, we jointly constructed the attached table which shows a breakout of total expenses, eligible and ineligible. This was officially transmitted to the USAID on July 25, 1985 by the GOES (Attachment J).

The table shows total expenditures in the amount of ₡11,853,049.52, of which eligible expenses of ₡8,658,244.03 and ineligible expenses of ₡3,194,805.49 were identified. The ₡1,741,755.97 disallowed expenditures (the difference between the ₡10.4 million allocated and the ₡8.6 million of eligible costs to be financed) are being reprogrammed as requested by the GOES in their letter of July 25, 1985 mentioned above.

With respect to the observation that the CCE and Ministry of Finance personnel interviewed by the auditors were not aware of the restrictions on the use of ESF funds, regretably some Ministry personnal apparantly were unaware of the restrictions. However, the senior officials in charge were fully aware of the restrictions. As GOES expenditures are identifiable under their "Expenditures Classification Manual," identifying eligible and ineligible expenditures after the fact and makeing necessary adjustments was not difficult.

If the changes recommended are not made then the following USAID comments should be included:

USAID/ES disagrees with the comments and recommendations. The

audit comments and recommendtions were based on preliminary, incomplete GOES reports. At the time audit work was completed the GOES had not yet submitted to USAID a final report for attribution. The GOES final report was received by the Mission and only ₡8.6 million were accepted as eligible. The difference, ₡1.8 million is being jointly reprogrammed with the GOES.

Closure of Recommendations: At the time of issuance of the report, it should note that all recommendations have been closed. Comments on each recom - mendation with references to relevant documents follows.

Recommendation Nos. 1(a), 1(b), 2, 3(a), 3(b), 4(a), 4(b), 4(c), 4(d), 4(e), 4(f), 5(a), and 5(b).

All of the above deal with the procedures for determining attribution of eligible transactions to ammendments 2, 3 and 4. The attached report from Arthur Young and Company describes the complete procedure used by them to select and verify all transactions attributable to the above ammendments. With the completion of this exhaustive review and the AY certification we believe a certification by the Superintendent of the Financial System would be superfluous and request closure of the recommendations.

With respect to 4(b), the BCR has used the NAUCA code since 1980. New F-10 procedures require the CIIU code as evidenced by newspaper articles.

With respect to recommendation 4. (e), the AY contractor has ascertained payment on attributed transactions under Amendments Nos. 2, 3 and 4. They will continue the process for all remaining amendments.

Other documents attached attest to the completion of actions in response to the recommendations. Attachments in support of closing the recommendations are:

Annex A - Arthur Young & Company Report on project No.519-0267 dated 15 August 1985. (1.(a), 1.(b), 2, 3.(a), 3.(b), 4.(a), 4.(c), 4.(e).
Attachment F - PIL No. 32 (4.(b), 4.(d), 5.(b)).
Attachment L - PIL No. 33 (3.(b), 4.(f)).
Attachment M - News clip from local newspaper regarding F-10 procedures (4.(b)).

Recommendation No. 6 has already been closed by the report based on the issuance of the Arthur Young contract.

Recommendation Nos. 7.(a), 7.(b), 7.(c).

All of the conditions required under this recommendation have been complied with and documentation is attached evidencing such compliance.

Attachment O - PL-480 agreements between the GOES and the implementing banks.
Attachment P - SETEFE letter No. 836/85 dated 19 August, 1985.
Attachment Q - Letter dated 25 July 1985 from USAID to MINPLAN requesting changes to agreements in accordance with the recommendations.
Attachment R - Copy of report evidencing receipt of ₡22,782,538.08 from the Mortgage Bank, which was the amount outstanding at that time.
Attachment U - SETEFE Letter dated 24 July 1985 outlining their procedure to assure compliance with the sales agreements.

Attachment G - Memorandum dated March 26, 1985 from the Regional Legal Advisor on use of interest on credit sales.

Recommendation No. 8:

This recommendation should be removed from the report. However, for your in-

formation, the following documentation is provided in response to the recommendation.

Attachment H - Ministry of Finance letter dated 28 February, 1985
Attachment I - Ministry of Finance letter dated 23 April, 1985
Attachment J - Final liquidation report from Ministry of Finance dated 25 July, 1985 with a request for reprogramming the balance of the ESF local currency.

Recommendation No. 9:

Even though there is no specific requirement in the MOL that the GOES must submit bank reconciliations on a monthly basis, SETEFE submitted the bank reconciliations thru May 31, 1985, on July 2, 1985. On July 12, 1985, in SETEFE's letter 681/85, A.I.D. was informed that the GOES is opening the necessary bank accounts in order to segregate the funds provided by the different agreements. In addition, in the same letter the GOES informed us that the bank reconciliations will be submitted on a monthly basis.

Attachment S - SETEFE letter 634/85 dated 2 July, 1985.
Attachment T - SETEFE letter 681/85 dated 12 July, 1985.

Recommendation Nos. 10 and 11 have been closed by the report.

cc: Mr. T. Stukel, AID/W, LAC/CAP

Cleared by: Mr. Robin Gomez, DIR, USAID/El Salvador (in draft)

Appendix 2

List of Recommendations

Page

Recommendation No. 1 9

We recommend that USAID/El Salvador:

(a) determine the eligibility of all transactions accepted for final attribution to the AID disbursement under Amendment No. 4 to the Grant Agreement and disallow any ineligible transactions.

(b) in the event that the Central Bank is unable to provide enough substitute transactions to fully attribute AID disbursements under Amendments 2, 3 and 4 of the Grant Agreement, then the USAID in consultation with appropriate legal counsel, should determine what remedies are available to correct the problem.

Recommendation No. 2 10

We recommend that USAID/El Salvador obtain from the Central Bank $5,042,911 in eligible import transactions in order to complete its attribution to AID disbursements under Amendments 2, 3 and 4 of the Grant Agreement.

Recommendation No. 3 12

We recommend that USAID/El Salvador obtain evidence from the Central Bank that:

a) the required documentation exists to support the final attribution of AID's $75 million disbursement under Amendment No. 4 to the grant agreement.

b) written filing procedures have been established to maintain the required documentation for each transaction.

Recommendation No. 4 15

We recommend that USAID/El Salvador:

a) obtain evidence from the Central Bank attesting to the fact that it has reviewed the transactions approved for AID's disbursement of $75 million under Amendment No. 4 to the grant agreement so as to ensure that the transactions were: (1) for eligible commodities and industrial subsectors, (2) financed by the Central Bank, (3) applied to the eligible import period, (4) accepted at FOB values, (5) not duplicate, and (6) in compliance with AID source and origin requirements. (Any transactions that do not meet these criteria should be disallowed by the USAID and eligible transactions should be substituted for them.)

b) define the criteria for eligible commodities and industrial subsectors and obtain from the Central Bank evidence that it has implemented procedures to use those definitions to record the commodity and industrial subsector classification on a source document such as the Import Permit Application "Form 10".

c) approve only completed transactions for attribution.

d) clearly define criteria for classifying transactions by eligible import periods.

e) obtain evidence from the Central Bank that it has instituted a procedure to obtain evidence of payment from commercial banks for supplier credit transactions.

Page

f) disallow two transactions for a total of $45,941.78 approved twice per Implementation Letter No. 19 and obtain eligible substitutes.

Recommendation No. 5 27

We recommend that USAID/El Salvador:

a) obtain the certification of the Superintendent of Banks for uncertified transactions attributed to the AID disbursement under Amendment No. 4 and disallow any transactions that cannot be certified.

b) issue a revised implementation letter to clearly define the certification responsibilities of the Superintendent of Banks to ensure the Superintendent certifies transactions against all eligibility criteria (this can be done by including a list of the eligibility criteria in the Superintendent's statement of responsibility).

Recommendation No. 6 30

We recommend that USAID/El Salvador verify that the Central Bank has installed a computerized selection system for attribution of import transactions to AID financing.

Recommendation No. 7 33

We recommend that USAID/El Salvador:

a) obtain evidence from the GOES that its sales agreements with the Agricultural Development Bank and the Mortgage Bank have been modified to require the deposit into the special account within a specified number of days after generation of: (1) sales proceeds and (2) any interest earned on credit sales (less a reasonable administrative fee).

b) ensure that SETEFE obtains from the Mortgage Bank the $9.4 million sales proceeds retained since September 1984.

c) obtain evidence that SETEFE has established a procedure to verify that the Agricultural Development Bank, the Mortgage Bank and the Institute of Food Regulation deposit their sales proceeds and interest earned into the special accounts when required by their sales agreements and comply with the credit provisions of their agreements.

Recommendation No. 8 37

We recommend that USAID/El Salvador require the GOES to:

a) review all expenditures incurred by the Central Election Council and attribute to ESF funds only expenses allowable under the terms of the 1984 Memorandum of Understanding.

b) return to the Ministry of Finance special account any ESF funds not attributed to allowable expenses and reprogram these funds.

Recommendation No. 9 42

We recommend that USAID/El Salvador obtain from SETEFE evidence that it has undertaken to establish a procedure to reconcile its bank accounts on a monthly basis and submit these reports to USAID/El Salvador.

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Recommendation No. 10

We recommend that USAID/El Salvador require the Department of International Prices of the Central Bank to:

a) exercise independence in accordance with Amendment No. 2 of the Memorandum of Understanding, dated July 24, 1984, by conducting statistically significant random samples of all approved import transactions.

b) establish procedures to ensure that all import transactions meeting the selection criteria established by the Department of International Prices are selected for price verification reviews.

c) revise criteria for selecting transactions for price investigation by using specific criteria such as tariff codes.

d) follow-up on price investigation recommendations.

e) establish a written policy to establish and enforce sanctions against capital flight offenders by adhering to Amendment No. 2 of the Memorandum of Understanding, dated July 24, 1984 (this recommendation is for the President of the Central Bank).

f) increase its staff to and maintain its level at ten professionals, as required by Amendment No. 2 of the Memorandum of Understanding, dated July 27, 1984.

g) obtain special reports from Customs on inspections of selected imports to verify that the value (quantity and quality) of goods imported coincide with the value authorized for the transaction.

Recommendation No. 11 51

We recommend that USAID/El Salvador obtain from the Central Bank documentation attesting to the fact that it has:

a) appropriately increased the number of price verifications for export transactions.

b) established procedures for export price verifications similar to those established or recommended for the review of imports (see Recommendation No. 10).

APPENDIX 3

REPORT DISTRIBUTION

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PREPARED STATEMENT

Senator KASTEN. Senator D'Amato.

Senator D'AMATO. Mr. Chairman, I have some questions that I would like to submit for the record, if I might.

Senator KASTEN. Without objection, so ordered.

Senator D'AMATO. I have a prepared statement that I would ask be included in the record as if read in its entirety, Mr. Chairman.

Senator KASTEN. Without objection, the statement will be included.

[The opening statement of Senator D'Amato follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Mr. Chairman, I welcome this opportunity to discuss the administration's fiscal year 1987 budget request for the Agency for International Development, Office of the Inspector General, the Inter-American Foundation, and the African Development Foundation.

I remain concerned that U.S. foreign assistance reach those who are most in need. Accordingly, it is important to ensure that this assistance is used in an efficient and effective manner, being mindful of its role in promoting broader U.S. foreign policy objectives.

We must be careful not to repeat the mistakes of the past. Members of the subcommittee may recall for example, that, until a couple of years ago, the United States was providing hundreds of millions of dollars of assistance to the Government of Syria at a time when Syrian troops were firing upon U.S. peacekeeping forces in Lebanon. We were building roads and enhancing other aspects of the infrastructure in Syria to facilitate easier movement of the over 7,000 Soviet advisors in the country at the time. An amendment that I authored and which was adopted by this subcommittee shut the faucet on this pipeline of assistance.

Another concern is that, in light of current budgetary constraints, we must encourage private sector support for development activities. Too many organizations have relied solely upon funds of the Federal Government for much too long. A related issue is that of administrative costs which must be reduced.

I look forward to hearing from the witnesses this afternoon and have prepared a number of questions on issues of particular concern.

Thank you, Mr. Chairman.

PHILIPPINE ESF PROGRAM

Senator KASTEN. General, I am sure you will recall that several years ago this subcommittee picked up on one of your audits on the Philippines program, where you had pointed out some discrepancies in AID's procedures and the ability to follow the funding that at that time we were providing to the Philippines.

You also might remember that our subcommittee insisted on the implementation of procedures which more closely followed those funds, something which was strongly resisted at that time by the Ambassador and also by the AID personnel in the Philippines. I might also add that it was likewise resisted by the management of AID here in Washington.

Finally, they saw the necessity of such procedures. They were implemented, and those procedures, although they were resisted in the beginning, were put in force, and it is my understanding that they remain in force.

To your knowledge, did those procedures succeed? In other words, have they assured us that our funds in the Philippines were used properly, or at least that we will be able to trace the funds that were used in the Philippines?

General BECKINGTON. I remember the circumstances very well, Mr. Chairman. The procedures put in place in the fall of 1983, as a result of the sequence of events you have just recalled, have remained in place to date. They are, in fact, the procedures that the AID mission in Manila and the Agency here in Washington have relied upon in the past couple of months to assure the Congress that the integrity of our ESF funding in the Philippines has been maintained.

I have no information at the moment to suggest to the contrary. I am, however, very concerned at the outpouring of information about the venality and the corruption that we have all read about in the last couple of months. With that in mind, we are back now and making a very special effort, which will probably continue on for many weeks, to ensure that, in fact, the integrity of that process has been maintained throughout this difficult period.

Senator KASTEN. We think that this is important because of the speculation in the press of the millions that were allegedly stolen from the Philippines, from the Filipino people, and particularly that some of it might have been U.S. foreign assistance funding.

I don't think that we are in any way saying, we told you so, or that we were worried and we are pleased that we forced the Agency to put those audit procedures into effect. We are not trying to second guess anyone, but I think that it is important that we were able to overcome the resistance, establish the procedures, and now we might be able to use those procedures in order to determine what actually has taken place.

We look forward to working with you in that regard.

SECURITY AT AID OVERSEAS POSTS

You indicate in your testimony, and you talked briefly at the end of your summary, about your request for physical security enhancement at AID posts overseas. What specifically did you ask OMB for?

General BECKINGTON. I eventually asked OMB this year for exactly what I have before the committee, Mr. Chairman. The amount is not very large. It repeats the amount actually appropriated for this current year.

The whole area of security is a very difficult one for any of us to address at this point in time because of the major initiative of the administration on the overall subject of overseas security for the entire American diplomatic community that is now moving through the Congress.

We have had, as you would expect, a number of discussions. The impetus for what is now happening is the so-called Inman Panel, under Adm. Bobby Inman, which completed its report last June. That report essentially forms the basis for the administration's proposed legislation reorganizing the State Department's security apparatus, and it forms the basis also for the supplemental appropriation request designed to improve our overseas security of American Embassies and AID installations, and so on.

I don't know how that is going to work out, as I suggest in my prepared statement. I think we have to wait until that legislation comes before the Senate, having now left the House, and we have to await a number of further discussions, both in the Congress and within the executive branch. For that matter, I view my request for security purposes in its present form as kind of a holding request, really, until some of this works out a little more clearly.

SUPPLEMENTAL REQUEST

Senator KASTEN. Your request is for $1.6 million. How does that fit with the overall security supplemental being requested by the State Department? Is your $1.6 million part of that supplemental?

General BECKINGTON. No, sir.

Senator KASTEN. Yours is separate, but roughly to do for AID inspector general, what they say they are doing for the State Department?

General BECKINGTON. Yes, in part. Actually, the Department views this as a single responsibility. The legislation that is moving through the Congress would fix accountability in one person, the Secretary of State.

Basically, I believe, as they view it, responsibility, accountability, and funding for this purpose, for all overseas agencies, would be handled in a single request year by year, and the operational responsibility would be lodged in the Secretary of State.

Those appropriations, I believe, as they view it, would contain year by year perhaps some earmarked funds, or funds requested and explained as being for AID Missions and AID purposes overseas as distinguished from embassies, chanceries, and so on.

We will just have, as I said, to wait a little bit longer, at least I think I do, before I can address this question in more detail, and more responsively.

Senator KASTEN. I have supported the general effort toward increasing security overseas, but I think all of us recognize that it is going to be a near impossible task to get all of the money requested through the Congress under the present circumstances.

General BECKINGTON. Yes.

Senator KASTEN. With everybody wanting to cut back. I just want to make sure that we are not double counting anything. If you have $1.6 million over here, and that in fact would be included in the $700 million that is going through over here.

General BECKINGTON. No, sir.

Senator KASTEN. It is going to be hard enough to get anything.

General BECKINGTON. No, I don't think that that is the case. I don't think, as a matter of fact, that I would have been permitted to come forward with this request by the executive branch if there was that idea of double counting, or gold plating was present at all.

I am not at all sure, any more than the others, I guess, as to just what course the proposed legislation is going to take in the months just ahead. If something slows it down, or something happens to it, then this small request, a very small request by comparison with the other numbers, will permit my Agency to continue to provide in a very limited way for the safety and security of its own people in the year ahead.

SUBMITTED QUESTIONS

Senator KASTEN. General, I have a couple of other questions, and as was noted there are other questions from members of the panel. We will submit those questions to you in writing. We thank you for your testimony here today, and thank you for the work that you are doing.

General BECKINGTON. Thank you, sir.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

OPERATING EXPENSES FOR OFFICE OF THE INSPECTOR GENERAL

Senator Kasten: General Beckington, an examination of the record would indicate that your personnel level has basically remained constant over the last several years. In fact, it has gone down some, notwithstanding the fact that the overall program has greatly increased. This would seem to indicate a lessening of your ability to adequately cover the entire program.

Part of this problem is taken care of, as you mentioned in your report, by the use of non-federal auditors.

My first question is, do you fully control this activity? And secondly, in your statement you mention a plan to allocate program funding at the A.I.D. Washington level had to be abandoned. Could you expand on that?

General Beckington: The use of non-federal auditors is recognized and provided for in the Inspector General Act of 1978. The Inspector General is charged with full responsibility for the control, direction and oversight of professional audit standards applying to their work product, scope of their work and use of their capabilities in support and reinforcement of the Inspector General's staff. Thus the answer to your first question is yes. Lack of funding, however, has precluded our use of this capability to anywhere near the extent it is employed by our domestic agencies.

We have not yet been able, in further answer to the second part of your question, to fully realize the benefits of added audit oversight of the foreign aid program through significant use of non-federal audit work. Lack of funding is the reason for this. Until early FY 86 the Agency had planned to make about $2.5 million available from program funds to support an adequate, centrally directed use of non-federal auditors. In the final analysis this plan had to give way to what were considered higher priority requirements. Thus, as I noted earlier in my testimony greater use of the non-federal audit resource will develop slowly as funds are budgeted project by project over time for project related audit work.

Senator Kasten: You indicate in your testimony that your request for physical security enhancement at A.I.D. posts overseas is the absolutely bare bones request. What did you ask O.M.B. for?

Is there an amount which is comparable to your own request — i.e., the $1.6 million — in the $700 million security supplemental being requested by the State Department? If not, why not?

General Beckington: My original request within the Agency's budget process for physical security enhancement was for $7.3 million, but that figure included certain costs, which late in 1985, became subsumed in the State security supplemental request.

The $1.6 million figure for security in the IG request is not duplicative of any comparable amount in the security supplemental request of the State Department. That request, as I understand it, contains funds marked for A.I.D. related office construction, including land acquisition and security related construction features, funds for A.I.D. related emergency radio communications at A.I.D. overseas posts and an A.I.D. overseas requirement for armored and lightly armored vehicles. The $1.6 million request in the A.I.D. IG budget will fund the continuing and repetitive requirements for security enhancement items in A.I.D. leased office and residential quarters overseas. These include such things as alarm systems, security doors and windows, lighting, locks, closed circuit surveillance systems, protective grills, safehavens, etc.

Senator Kasten: I understand that we were successful in being able to help you relocate your regional office in Singapore. Are your people there yet? And, do you believe that Singapore is going to be a good location for that regional office?

General Beckington: I think you are correct, Mr. Chairman, that the Subcommittee's concern over the need to reestablish the regional IG offices closed last summer in Karachi, Pakistan helped highlight the Agency's search for a new location for that group. The Singapore office is established. All but one or two of the permanent staff will be in place over the next sixty days. I believe it will be an excellent location for the function.

Senator Kasten: General Beckington, the main value of your activities, certainly one of the primary values, is the management resource you represent by finding problems which would hopefully result in the Agency correcting future action as they implement programs around the world.

Unfortunately, as you know, this subcommittee has felt that there was always an emphasis on simply closing your recommendations and not enough emphasis on utilizing what you find in order to avoid the same mistakes.

As a result, as you have indicated yourself in some of your audits, the same mistakes appear again and again.

Do you have any suggestions as to how the Agency can better utilize the work that you do so that your audits don't just continually show the same mistakes over and over again?

General Beckington: I think you are entirely correct, Mr. Chairman, in noting the discouraging repetitiveness with which similar problems recur in my reporting. I have from time to time in testimony before your Subcommittee noted my personal belief that our foreign aid program presents one of the more difficult management challenges in our government. If there is any single answer to your question, I believe it lies in finding some way for the very senior management level of the Agency to focus upon the more significant IG reports in a very direct fashion and thus engage themselves in the necessary corrective and preventive steps and actions called for. For very busy persons this may not be easy.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

OPERATING EXPENSES FOR OFFICE OF THE INSPECTOR GENERAL

Senator D'Amato: What mechanism is there, if any, to track A.I.D. programs once they have been initiated? In other words, how can we prevent programs from continuing in light of a serious change in relations with the recipient country?

General Beckington: Senator, If I understand your question correctly, a decision of the kind you raise would not ordinarily involve the Inspector General. I would view this as a policy decision and the Inspector General is, by law, not a policy official. I believe a change of relations with a country serious enough to raise questions concerning continuation of a U.S. aid program would fall within the purview of the Department of State within the Executive Branch. In the aftermath of a decision to terminate a program, such as the case of Syria in 1983, the Inspector General would participate in the process pertaining to the close down of the program.

Senator D'Amato: Are you aware of any other "pipelines" similar to the Syrian one, in which our assistance went ahead,until I stopped it, even after circumstances in the Middle East changed and relations between our two nations deteriorated?

General Beckington: No, sir.

Senator D'Amato: In your prepared remarks, you briefly mentioned the security function of your office. As Chairman of the Senate Anti-terrorism Caucus, I am particularly concerned over terrorist attacks on U.S. citizens abroad. In recent months we have witnessed an increase in such attacks. Please comment on the relationship between your Agency's security operations and those of the State Department. What can be done to increase cooperation between the two?

General Beckington: The security responsibility for the foreign affairs agencies' overseas posts vests primarily in the Department of State, specifically now, the Diplomatic Security Bureau. A.I.D. maintains a very small capability (nine positions) in direct support of A.I.D.'s overseas requirements. We carry this program forward in conformity with the Department's standards and policies on physical security and plan to continue this relationship and function in cooperation and coordination with the Department's Diplomatic Security Bureau. We are in discussions now with State on strengthening and regularizing the relationship in light of the Diplomatic Security Act legislation presently before the Congress.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

OPERATING EXPENSES FOR OFFICE OF THE INSPECTOR GENERAL

Senator DeConcini: Mr. Beckington, there is increasing concern over the possible diversion of U.S. foreign assistance

funds in recipient countries, particularly in light of reports on corruption and misuse of monies following the collapse of the Duvalier Government in Haiti and the Marcos Government in the Philippines.

What is your role, specifically, in monitoring the expenditure of U.S. funds or distribution of commodities?

General Beckington: We employ the full range of investigative and audit methods and techniques under the authorities vested in the Inspector General by law. On the investigative side we investigate all allegations of crime such as fraud, bribery, embezzlement, etc. related in any way to programs and funds entrusted to this agency. To the limit of our resources we also investigate allegations of employee misconduct and regulatory infractions. Our limited audit resources require us to be selective in auditing agency programs and projects for financial and compliance, economy and efficiency and effectiveness of program results. Our planning process is designed to ensure that on a regular basis we conduct audits of selected agency programs in every major area of agency operations such as participant training, host-country contracting, commodity import programs, agricultural and rural development and the Agency's internal systems for control and management of fiscal operations. Through this process we maintain a specific and direct monitoring role on a representative sample of all aspects of the Agency's work with very specific attention to the disbursement of funds and the distribution and use of A.I.D.-funded commodities.

Senator DeConcini: What type of controls could AID impose that it does not currently use?

General Beckington: The program, fiscal, procurement and operational controls now available to A.I.D. derived from the law, OMB directives and Agency regulations are quite complete in my judgment. One possible exception to this conclusion in light of recent events lies in the area of direct dollar disbursements to foreign governments. Problems that I do encounter in my reviews arise, in my judgment, not from a lack of adequate controls now in place, but rather in the difficulties so routinely reported in implementing, applying and observing the existing controls. Correcting this condition can only come about as a result of training and tauter management performance at all levels here in Washington and in the field.

Senator DeConcini: If someone working for USAID suspects that foreign assistance funds or famine relief money is not properly utilized or reaching the designated account, do they report to you? What is your procedure?

General Beckington: Fraud, waste or abuse in the conduct of A.I.D.'s programs when suspected by any A.I.D. employee must be reported to the Inspector General. We ask that A.I.D.'s contract and grantee employees do so also. When allegations are received they become the subject of investigative or audit effort or both depending upon the circumstances if preliminary review and assessment suggest the complaints or allegations have a reasonable degree of merit. A majority of our investigative work comes to us

in this way. Audit work is more planned than reactive, but even so there is almost no time during a normal year that some audit work is not in progress as a direct result of allegations received of waste, fraud or abuse of A.I.D. funds and resources.

INTER-AMERICAN FOUNDATION

STATEMENT OF DEBORAH SZEKELY, PRESIDENT INTER-AMERICAN FOUNDATION

ACCOMPANIED BY ROBERT MASHEK, EXECUTIVE VICE PRESIDENT

BUDGET REQUEST

Senator KASTEN. Our next witness is Ms. Deborah Szekely.

Ms. SZEKELY. Thank you, Mr. Chairman.

First, may I introduce Bob Mashek, who is the Executive Vice President of the Foundation. He is with me in case you ask some questions to which I don't have the answers.

It is an honor to be here to testify before this distinguished Subcommittee on Foreign Operations. It is also a special pleasure for me as President of the Inter-American Foundation to tell you about our work in Latin America and the Caribbean.

You invited me today to review the Foundation's fiscal year 1987 request for $10.8 million. This sum will be in addition to the equivalent of $16 million in local currencies from the Social Progress Trust Fund. Thus, our program in support of grassroots development initiatives in Latin America and the Caribbean will total $22.1 million.

The Foundation will limit overhead costs to no more than $4.7 million, down from the $4.8 million estimated for this year. You have my assurances that we will continue to seek ways to trim these costs even further.

The Foundation programs reached more people during 1985 than ever before. Program funding was the highest in the Foundation's history, $24.2 million. Yet, while Foundation support to the poor increased substantially, its overhead costs remained low, 15 percent of its total budget.

In spite of the great regional economic crises, in 1985 grassroots organizations matched every dollar contributed by the Foundation with $1.56, the highest counterpart ratio in the Foundation's history.

NOTEWORTHY PROJECTS

The Foundation has supported many innovative and worthy projects in this past year. Of special significance is the Foundation's support for a nationwide literacy project in Haiti, started by the Haitian Catholic Church in 1985. This program is the first of its kind in a nation with the highest illiteracy rate within the hemisphere.

It is being conducted in Creole, the only language that all Haitians speak and understand. All previous literacy programs were conducted in

French, the official language spoken by less than 8 percent of the population.

The church has mobilized its entire system of human resources and physical facilities so that 3 million people may be reached during the 3-year project. Startup funding by the Foundation helped the church launch this program a year ago, and now many international donors are coming aboard to help.

SOCIAL PROGRESS TRUST FUND

I am pleased to report that an agreement has been reached with AID and the Inter-American Development Bank allocating Social Progress Trust Funds for calendar years 1986 through 1988. Based on the new agreement, the Foundation will receive approximately $16 million annually in Social Progress Trust Funds over the next 3 calendar years.

FISCAL YEAR 1987 PROGRAM

The Foundation's fiscal year 1987 program is based on budget authority of $10.8 million, and 67 full-time equivalent personnel. As noted, the Foundation will also have available approximately $16 million in Social Progress Trust Funds.

The fiscal year 1987 program projects a total of $22.1 million plus available reobligation authority to use for grants throughout Latin America and the Caribbean. These sums will enable the Foundation to support a program second only to the record level of fiscal year 1985.

Reflecting the increasing urbanization of Latin America, the Foundation will place a priority on supporting projects that promote employment, income generation, and work skills in the region's cities.

Grant making will be allocated in fiscal year 1987 as indicated in the chart accompanying my written statement which I request be made part of the record.

Senator KASTEN. Without objection, the chart will be made part of the record.

Ms. SZEKELY. Also included are plans to further reduce operating costs, monitor Foundation supported projects closely, and share lessons learned with other development organizations. The Foundation's journal to be published quarterly will be used to disseminate our experience for the benefit of grantees and other development organizations.

We will be expanding the use of the in-country specialists and services so that technical assistance can be made available to the grantees when and wherever needed. These specialists will visit grantees quarterly to monitor progress and report findings to the Foundation.

We will be awarding approximately 35 fellowships for masters and doctoral level students from U.S. universities for field research in Latin America and the Caribbean on grassroots development issues. Some 10 awards will be made to Latin and Caribbean development specialists and researchers for advanced study in U.S. universities.

In conclusion, I thank the members of this distinguished committee for supporting the Inter-American Foundation's mission during these

past 15 years. The Foundation has demonstrated clearly and effectively how development assistance can contribute to economic and social advancement by drawing on the determination and commitment of people willing to help themselves.

Our challenge is to become even more effective, to make better use of our limited funds, to learn from experience, and to make this learning and knowledge a development resource every bit as important as financial capital.

The Foundation must continue to be an innovator as it goes about its daily business of making a real difference in the lives of the poor of Latin America and the Caribbean. I pledge to you that I will do all that I can to carry on this important mission and to make the Foundation worthy of your continued support.

Mr. Chairman, I would be most happy to answer any questions, which you and other members of the subcommittee may have.

[The prepared statement and chart of Ms. Szekely follow:]

PREPARED STATEMENT OF DEBORAH SZEKELY

PRESIDENT

INTER-AMERICAN FOUNDATION

INTRODUCTION

Mr. Chairman, it is an honor to be here to testify before this distinguished Subcommittee on Foreign Operations. It is also a special pleasure for me, as President of the Inter-American Foundation, to tell you about our work in Latin America and the Caribbean. You have invited me today to review the Foundation's Fiscal Year 1987 request for $10.8 million. This sum will be in addition to the equivalent of $16 million in local currencies from the Social Progress Trust Fund (SPTF). Thus, our programs in support of grassroots development initiatives in Latin America and the Caribbean will total $22.1 million. The Foundation will limit overhead costs to no more than $4.7 million, down from $4.8 million estimated for this year. You have my assurances that we will continue to seek ways to trim these costs even further.

Last week, the Foundation celebrated its 15th birthday with events here in Congress and at the State Department. What has the Foundation been all about? After being its president for a year and a half--a period of listening and learning--I can honestly state that:

> The Foundation is about many things, but above all about stimulating the birth and growth of Latin American and Caribbean private development organization in programs they themselves design and direct. These organization can offer real answers to many problems of the poor. They have also provided the Foundation with another precious resource in addition to U.S. taxpayers' money--knowledge about local, private, grassroots development.

The Congress has been generous with the Foundation over the years. Should it continue to support the Foundation? My answer is a definate "yes". My testimony today will illustrate why this is so.

THE IMPORTANCE OF PRIVATE DEVELOPMENT

Latin American and Caribbean governments continue to experience great difficulties in achieving their goals for development. Moreover, during the past few years, the limits of governments have become even more evident as economic conditions have deteriorated and as debt, adjustment and austerity have placed further burdens on the poor.

Despite the severe problems, the indigenous private development organizations of Latin America and the Caribbean have proven to be innovative, efficient, persistent, and committed to working to better the lives of the poor. While governments and their programs have come and gone, these private organizations have worked with continuity on the long-term problems of underdevelopment. Moreover, the success of the best of the private programs can be traced to the direct involvement of the poor as actors, not merely targets of assistance.

As an important part of the framework of democratic institutions, these private organizations permit people to exercise responsibility for local affairs in two ways: 1) by showing people at the grassroots how to organize to better their lives, and 2) by helping businesses, professional, and other community leaders to assist marginal groups in non-paternalistic ways. These private voluntary organizations often constitute the only "ladders of communication," from the bottom up, from the grassroots to national governments. Working together, these organizations serve as brokers between

government and society with the potential to cement significant, peaceful and lasting change.

THE ROLE OF THE INTER-AMERICAN FOUNDATION

Fifteen years ago, a wise Congress created the Inter-American Foundation. I believe that if it had not been created then, Congress would do so now.

The Foundation is an organizational experiment within the foreign aid community, building the infrastructure of Latin American and Caribbean private development organizations during each of the last fifteen years. Through its experimental approach to project selection, the Foundation has answered questions and tested hypotheses about what kind of funding is most effective in helping people better their lives. Although the world is not a laboratory, the Foundation conducts, in partnership with Latin Americans and Caribbeans, an effective approach to learning through funding which has improved life for a great many people in the hemisphere. It has also provided the Foundation with a store of time-tested knowledge which we are now in a position to share with the development community.

Experience — The Foundation is building an ever expanding network of private development organizations. Today, hundreds of organizations state that their existence and success was made possible by Foundation support at critical junctures, when local resources were inadequate, non-existent, or unavailable to support new ideas.

Sole U.S. Assistance — The Foundation is the only U.S. Government agency, representing the good will of the American people, active in development assistance in the

six Latin American countries of Argentina, Brazil, Chile, Colombia, Mexico, and Venezuela. In these countries reside 75 percent of the region's population and many of the largest concentrations of the very poor in the hemisphere.

People-to-People

The Foundation is the only U.S. Government agency working exclusively on a people-to-people basis, supporting private organizations in Latin America and the Caribbean.

Cost Effective

The Foundation has been recognized by the Congress and GAO as having one of the most cost-effective and productive foreign assistance programs. Great and visible results have been achieved with a budget that represents less than one-half of one percent of U.S. foreign assistance programs and an average overhead of 15 percent.

Positive Evaluations

The Foundation has received positive appraisals from U.S. Government and private evaluators.

Multiplier Effect

The Foundation funds projects only where local resources are committed. Every dollar granted by the Foundation complemented $1.23 from the recipient organizations. In the Dominican Republic, each $1.00 in grant funds was matched by $6.00 in cash contributions, credit, and services from Dominican sources. This multiplier effect does not cease but continues to grow after Foundation funding ends.

Largest Grassroots Development Fellowship Program	The Foundation has established the largest U.S. fellowship program for U.S. and Latin American scholars concerned with grassroots developmenmt.
Communi-cating Lessons Learned	Essential to the operations and effectiveness of the Foundation is its evaluation, learning, and dissemination program which seeks to glean lessons from the projects it supports and to share the information with the development community.

THE FY 1985 PROGRAM

The Foundation's program reached more people during 1985 than ever before. Program funding was the highest in Foundation history: $24.2 million. Yet, while the Foundation's support to the poor increased substantially, its overhead costs remained low--15 percent of its total budget.

Grassroots organizations supported by the Foundation have proven to be innovative, efficient and dedicated.

In spite of the grave regional economic crisis, these grassroots organizations in 1985 matched every dollar contributed by the Foundation with $1.56--the highest counterpart ratio in the Foundation's history.

The largest share of Foundation resources in Fiscal Year 1985, 44 percent, went to rural development projects. The principal beneficiaries were small-scale farmers seeking to increase their productivity.

Twenty-one percent of the Foundation's FY 1985 budget supported

training and educational programs. A high proportion of these grants financed managerial training and leadership education.

An increasing amount of funds, 14 percent in FY 1985, were made available to small urban businesses and organizations that assist such businesses. These businesses generate new sources of income and employment for the urban poor.

Another 14 percent of the FY 1985 budget was applied to projects in community services. These funds were used to increase the poor's access to health care, housing, legal protection and basic foodstuffs at fair prices.

A small part of the Foundation portfolio supported grassroots groups working to create self-esteem by invigorating the region's traditional arts and culture as springboards to development.

Noteworthy Projects

Visiting the projects that the Foundation supports, I find energetic and optimistic people who refuse to give up, who insist upon not only surviving but persist in seeking a way out of their dire poverty. The Foundation has lived and grown along with these people. The constants have been their courage and determination to face their problems and do something about them.

Among the many innovative and noteworthy projects which the Foundation supported in the past year are four favorites:

-- Probably for the first time in history, green iguana eggs are incubating in a hatchery. Nearby, farmers are planting trees that will feed and house the infant iguanas. This is a project of the Fundación Pro Iguana Verde in Panama to help poor people raise the

green iguana for home consumption. This traditional source of protein-rich food has long been an endangered species, as has its natural habitat, the tropical forest. With the forest cut into firewood, the iguana lost its source of food and its hiding places. The common iguana soon became a rarity. The goal of the project is to show how a new synergy can be struck among the people, the green iguana, and the forest.

-- The Haitian Catholic Church started in 1985 a nationwide literacy program, the first of its kind in a nation with the highest illiteracy rate in the hemisphere. This program is conducted in Creole -- the only language that all Haitians speak and understand. All previous literacy programs were conducted in French -- the official language which is spoken by less than 8 percent of the population. The Church has mobilized its entire system of human resources and physical facilities so that three million people may be reached during the three-year project. Start-up funding by the Foundation helped the Church launch its program which is now receiving funds from other international donors.

-- A trip last November took me to Dominica, where I met a most impressive group of women, the Hucksters Association. These women, chiefly heads of households and most with several children, market staple goods among the islands of the Eastern Caribbean with a great deal of skill and knowledge. The Association provides imprinted shipping boxes and teaches its members quality control, proper packing, and simple accounting techniques. It also publishes a newsletter

on crop conditions in the islands. Priority space and standard fees have been negotiated for travel on inter-island schooners. Members are assisted with the preparation of export-import documents and access to a small revolving loan fund is provided. During my visit, the Association discussed their future plans for insuring the safe and timely arrival of their perishables. They have proved so effective in upgrading inter-island commerce that the Government of Dominica has provided them with a warehouse, and Guadeloupe and Martinique have ceded to the Hucksters Association exclusive commercial landing rights.

-- Along Peru's desert coast, near Chiclayo, is an association of beekeepers, whose 500 members are among the region's poorest. Through a grant from the IAF, the Fundación para el Desarrollo Nacional has provided credit to buy hives and equipment, technical training in beekeeping and honey extraction, and instruction in accounting, literacy, nutrition, and hygiene. The honey is collected from the producers by donkey cart and then trucked off to Chiclayo for filtering, testing, and sealing in drums for the market beyond. On the day I visited the project, about 5,000 gallons of honey were ready for marketing. The project has given rise to several local micro-enterprises. One is a carpentry shop for building hives and frames. Another sews the coveralls and wide-brimmed hats worn by the beekeepers. A sheet metal shop with 12 employees produces the honey extractors and smokeguns. A few years ago beekeeping was unknown in this area. Honey production has enlivened the local economy.

These four projects illustrate how grassroots groups offer a simple, but powerful proposition: change is possible, opportunities can be created, and initiative can improve the way things are done. Foundation grants provide not only seed capital but simultaneously reinforce initiative, entrepreneurship, cultural values, self-confidence, and self-esteem. As I look to our own future, my fond hope is that we can continue to provide consistent and timely assistance to the people who share our hemisphere.

GOALS FOR FISCAL YEAR 1987 AND BEYOND

Ways of Assisting

The Inter-American Foundation can enable private citizens and organizations, commercial and governmental institutions, and multilateral and bilateral donors to gear their operations to promoting grassroots development in Latin America and the Caribbean. As a pathfinder in grassroots development, the Foundation will place renewed emphasis on the following objectives:

-- Learning and Dissemination: During its fifteen years, the Foundation has become a treasury house of development experience. To capture the essence of what it has learned, the Foundation is refocusing its energies to share its knowledge with other development organizations. An Office of Learning and Dissemination has been created to study and provide documentation on its projects. Thus, as past mistakes are avoided and current approaches refined, the best of the innovative ideas and methods can be shared and used by others to help all groups working with the disadvantaged.

The 24 Foundation Field Representatives travel four or more times a year to Latin America and the Caribbean. The Foundation relies extensively on their reports of important development trends and noteworthy projects to improve and mold our responsive work. Foundation Representatives are encouraged to chronicle their own experiences in the Foundation's Grassroots Development Journal which highlights emerging development issues and specific project experiences. By expanding publication from two to four times a year, the Journal will provide a transnational network for organizations working in development, encourage them to share with one another important learning experiences, and stimulate grantee organizations in their own thinking.

In this same spirit, Foundation reports on "lessons learned" from grassroots projects will be communicated to many other development institutions because the problems of the poor in the Third World transcend country and culture. Comparative studies on programmatic impact will be carried out with major agencies such as AID, the World Bank, and the Inter-American Development Bank, which channel resources largely through governments. Special attention also will be devoted to communication with private voluntary organizations, governmental institutions, the Central American Development Organization (CADO), and local business, civic and labor organizations in Latin America and the Caribbean.

The Learning and Dissemination Office will develop a computerized project library to store project data generated by Foundation grantees, staff, and other development specialists. The library is scheduled to be operating by FY 1987, and will be available for use by

development organizations, research centers, and educational institutions. Most important, the staff will be able to cross-reference each new proposal with the Foundation's own accumulated project experience.

-- Building Private Infrastructure: The Foundation will continue its core program and undertake future experiments in strengthening and expanding the work of a dynamic network of private and volunteer grassroot development organizations. With IAF support, private organizations can become major actors in national development, strengthen their institutional capacity, leverage national and international resources, and build an influential network of leaders of grassroots development in their own countries.

-- Income Generation: The Foundation will give added emphasis to local production and marketing of goods and services in small-scale agriculture and micro-enterprises in the countryside, villages, secondary cities and urban areas. The people involved will be of low or no income: small farmers and entrepreneurs, women heads of households, craftspeople, fishermen, and indigenous groups.

-- Human Resource Development: For persons with little education, programs in vocational training, management, financial administration, and health services will be highlighted.

-- Increased Technical Assistance and Program Assessment: Projects will be clustered geographically for ease of monitoring and technical assistance. Grantee organizations will be encouraged to provide one another with technical assistance. The Foundation will assess each project as part of a larger process, not as an isolated event.

In-country cadres of technical consultants, retained by the Foundation, will assist grantees to improve project implementation and will generate information about grassroots development. The Foundation will undertake evaluations of individual projects as well as clusters of projects falling within the Foundation's institutional priorities. Baseline and follow-up surveys are planned on the employment implications of micro-businesses in the informal sector, the nature of private development organizations, the characteristics of successful grassroots groups and the intermediary service organizations which support them.

-- Innovative Approaches: The Foundation will complement its responsive grant-making to the needs of the applicants by further testing loan mechanisms with repayments made to local credit organizations, loan guarantee, and credit leveraging mechanisms. Technical in-country support systems will be used for proposal assessment, project monitoring, and identification of technical assistance needs. We hope to take a more active role in disseminating project ideas while encouraging private citizen involvement in development programs.

SOCIAL PROGRESS TRUST FUND (SPTF) AGREEMENT

Mr. Chairman, I am pleased to report that an agreement has been reached with AID and the Inter-American Development Bank allocating Social Progress Trust Funds to the Foundation for calender years 1986 through 1988. The SPTF was established in 1961 as a loan repayment vehicle for those countries receiving United States assistance via the Alliance for Progress. Briefly, based on our new agreement, the Foundation will receive approximately $16 million annually in Social Progress Trust Funds over the next three calender years.

The total sum available to the Foundation under this new agreement equals $48.6 million, including $875,000 U.S. dollars and $2.2 million freely convertible Bolívares. This Venezuelan currency will also be used to support projects in countries in which SPTF is unavailable.

SPTF funds are not available in Mexico, and are available in considerably diminished amounts in Costa Rica, the Dominican Republic, Haiti, and Paraguay. You may be sure that the Foundation will make every effort to manage its SPTF and appropriated funds in a manner that will maximize their effective and productive use.

THE FY 1987 PROGRAM

The Foundation's FY 1987 program is based on a budget authority of $10.8 million and 67 full-time equivalent (FTE) personnel. As noted, the Foundation will also have available approximately $16 million in Social Progress Trust Funds. Greater detail on the Foundation's activities, including a description of each project funded during 1985 and budget and program data for FY 1987, is contained in the Foundation's Congressional presentation report submitted to this distinguished Committee on February 6.

The FY 1987 program projects a total of $22.1 million plus available reobligation authority to be used for grants throughout Latin America and the Caribbean. These sums will enable the Foundation to support a program second only to the record level of FY 1985. Reflecting the increasing urbanization of Latin America, the Foundation will place a priority on supporting projects that promote employment, income-generation and work skills in the region's cities. Taking into account SPTF availabilities and country conditions, grant-making funds in FY 1987 will be allocated as follows:

-- approximately $2.0 million in Brazil and Argentina, where SPTF resources account for the entire program;
-- approximately $1.6 to $1.8 million for Colombia and Peru;
-- Between $800,000 and $1.2 million is allocated for each of the following countries: Bolivia, Chile, Mexico, Panama, and Ecuador;
-- between $400,000 and $800,000 is allocated for each of the following countries: Uruguay, Haiti, the Dominican Republic, Guatemala, El Salvador, Honduras, Costa Rica, Nicaragua, and Venezuela.

The Foundation plans to expand its Central American portfolio during FY 1987 by maximizing the use of Social Progress Trust Funds.

In March of 1985 the Foundation reorganized its operations to focus on individual country programs instead of regions. Foundation Field Representatives now work in eight geographic offices, with a central program office to supervise their activities. The reorganization increased the number of Field Representatives and, at the same time, improved grant monitoring.

Included in the Foundation goals for FY 1987 are plans to:

1. Further reduce operating costs and the length of time required to approve grants while accelerating the distribution of funds to grantees.
2. Continue to identify and support projects which use innovative approaches to help poor people help themselves.
3. Study how the poor cope with recession, austerity, and reduced government assistance.
4. Monitor Foundation-supported projects closely and share

lessons learned with other development organizations. The Foundation's Journal, Grassroots Development, to be published quarterly, will be used to disseminate our experience for the benefit of grantees and other development organizations.

5. Expand, to the degree appropriate, the use of in-country speicalists and services so that technical assistance can be made available to the grantees when and wherever needed. These specialists will visit grantees quarterly to monitor progress and report findings to the Foundation. The Foundation considers the use of in-country specialists one of its most important innovations in its efforts to maximize results at least expense.

6. Improve its Grant Management System (GMS) through increased staff training and the use of more versatile computer programs.

7. Award approximately 35 fellowships for masters and doctoral level students from U.S. universities for field research in Latin America and the Caribbean on grassroots development issues. Some 10 awards will be made to Latin and Caribbean development specialists and researchers for advanced study in U.S. universities. The newly formed Fellowship Advisory Committee will provide guidance and expert advice to ensure that the Foundation's fellowship programs continue to complement the Foundation's learning agenda. For the benefit of the development community, a Fellowship Directory will be published to identify researchers working in the field. A fellowship Reader will be published to digest research findings for general audiences.

CONCLUSION

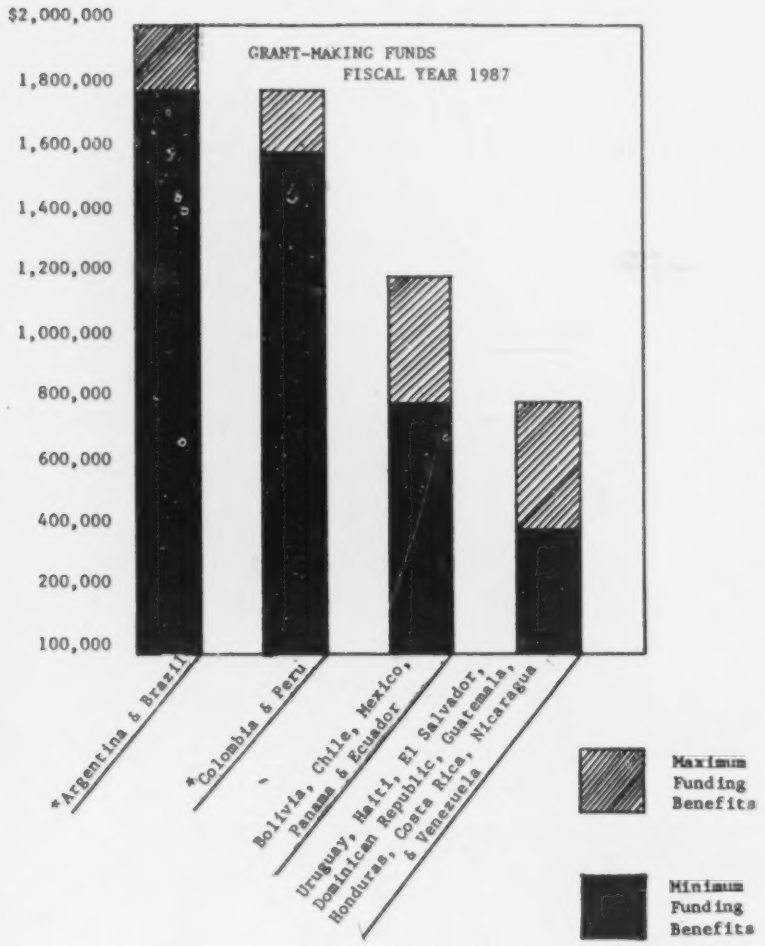
I thank the Members of this distinguished Committee for supporting the Inter-American Foundation's mission during these past 15 years. The Foundation has demonstrated clearly and effectively how development assistance can contribute to economic and social advancement by drawing on the determination and commitment of people willing to help themselves.

Our challenge is to become even more effective, to make better use of our limited funds, to learn from experience, and to make this learning and knowledge a development resource every bit as important as financial capital. The Foundation must continue to be an innovator as it goes about its daily business of making a real difference in the lives of the poor of Latin America and the Caribbean.

I pledge to you that I will do all that I can to carry on this important mission and to make the Foundation worthy of your continued support.

Mr. Chairman, I would be most happy to answer any questions which you and the other Members of this distinguished subcommittee may have.

Thank you.



*Exclusively SPTF resources.

BRAZIL PROJECT DISPUTE

Senator KASTEN. Thank you for your testimony.

As you may know, I have been concerned about projects and programs that the multilateral development banks have been funding as they relate to environmental issues. It is clear that these institutions have not taken protection of the environment into sufficient account as they approve projects around the world.

We particularly got into a dispute with the World Bank with regard to a project in Brazil. As they approve projects around the world, they are not giving sufficient attention to basic environmental considerations. We have problems with soil erosion in Africa and in South America.

We are now in the process of doing something about it. We already have, in certain of these institutions, required the same environmental awareness that we have in our society. Does your organization have any kind of environmental checkoffs before funding projects?

Do you pay attention to the environmental impact of the projects that you fund or encourage? Is there any kind of an effort toward that kind of thing, and do you have any environmentalists on your staff who review these projects at each step along the way?

ENVIRONMENTAL IMPACT

Ms. SZEKELY. Our projects are not big enough to have a significant environmental impact, but throughout Latin America we caution against using pesticides indiscriminately. We urge protective clothing for the people doing the spraying. We advise against needless spraying. We are very concerned, and we finance a number of forestation programs, demonstrations of reforestation throughout Latin America.

Our grantees quickly pick up everything that concerns the well-being of their children. They are very concerned about runoff of chemicals into their water.

Senator KASTEN. We have taken it upon ourselves to try to draw attention to this, because we are seeing environmental damage, particularly with the large-scale development projects.

I should say that we have the people at Treasury and others working with us in terms of getting the environmental awareness that we now have in our society transferred over to the multilateral development banks, and the other institutions, which we fund a large part of, so that we can try to get this kind of an awareness in place in the other projects.

Ms. SZEKELY. I know of one project that ties in very well. Also when I travel, and I have been in a dozen countries and seen numerous projects in these last months, I have pointed this particular area out to our ambassadors, most recently in Chile.

My real concern is that environmental impact often doesn't seem to be a part of project planning. We have a great environmental project in Panama operating in three villages in Panama today. The green iguana used to live in trees. When the trees were cut for firewood by the poor people, the green iguanas had no place to live. They were a very basic

source of protein for 7,000 years. We have for the first time three villages with incubators that are incubating the eggs of the green iguanas. The iguanas are going to be raised as a food source almost like chicken until they are 6 months old, and 5 inches long. Trees are being planted in all three villages with enthusiasm because as the villages are planting the trees, they are visualizing green iguanas living and growing together with the trees. The iguanas eat bugs, leaves, and twigs.

NICARAGUA

Senator KASTEN. You indicated two new grants in Nicaragua, which you also indicated are going to the private sector.

Does the Sandinista government have any say whatsoever over these grants, or over these projects, the way they are carried out?

Ms. SZEKELY. They haven't paid any attention to us, and we have been very fortunate in that respect. Our field representatives don't make a lot of noise when they visit Nicaragua. They do visit the U.S. Embassy and the Ambassador.

In Nicaragua, we are supporting the private sector through various agricultural projects that affect the very poor people. It is totally nonpolitical.

Senator KASTEN. Nonpolitical, and totally independent of the Sandinista government?

Ms. SZEKELY. Totally independent.

EL SALVADOR

Senator KASTEN. Last year, we talked briefly in your testimony about El Salvador. The concern about safety was uppermost. I note from your congressional presentation document that the number of grants increased from 2 in El Salvador in 1984 to 12 in El Salvador in 1985, but in 1986, you show a 6-month grant of $12,426 to a group called El Truja, if I am pronouncing that correctly, as the only new project for El Salvador.

I guess that this is a disappointment to me, particularly if we have two projects in Nicaragua, and only one new one in El Salvador, where it seems to me the safety problems should be somewhat better than they were a year ago. We ought to be doing everything we can with programs such as yours in El Salvador, considering the grave economic problems that President Duarte is facing now, and I think that the grassroots development could be very beneficial. I would appreciate your comments.

Ms. SZEKELY. I appreciate being asked that question, because this is a question that I have asked as well. We have a new field representative in El Salvador, and we are busy networking in that country. At this stage, it is hard to find the kind of people with leadership skills who are putting together grassroots development groups.

We have reviewed 20 projects, and 6 projects will be coming up for funding. It has been a difficult startup because we had been out of El Salvador for 4 years, due to a policy directive of the Board, and returning is not that easy.

Senator KASTEN. Let me get back to my notes, but from 2 to 12, and now back down to 1, that is not an upward trend. Do you think that you are going to get that together by the end of the year?

Ms. SZEKELY. We hope so very much. We have a good field representative for El Salvador. He is trained, and he is making important contacts. But it has been difficult because the people that we worked with in the past are no longer there. So we must set up a new network. It is not easy to give money away intelligently and responsibly. It is not a matter of just saying, here is some money. It is a matter of saying, these are seeds, and how are you going to plant them, and how are they going to grow, and checking on them accordingly. It is a very complex process.

Senator KASTEN. I hope that you will plant at least as many of those seeds in El Salvador as you do in Nicaragua. It has got to be hard to do in both places.

Ms. SZEKELY. I agree.

GRENADA

Senator KASTEN. Last year, we discussed the possibility of projects in Grenada. I am pleased to see that there is a project in Grenada, an $11,600 grant for a training program made through or with Save the Children. Can you give us more detail on that project?

Second, how often do you give grants to the private voluntary organizations, like Save the Children, or is this kind of hybrid or an unusual situation?

Ms. SZEKELY. The Foundation grant is to Save the Children of Grenada. It is connected with the U.S. organization, but not funded by it. We do it sometimes. We are very high on training, technical training, because it is important that emerging leaders have leadership skills, management skills, and business skills. Most organizations know that this is one of my pet goals—providing these kinds of skills.

I just recently signed two grants in Grenada, and I visited Grenada last November. I met with a number of people there. There was some reluctance to accept our money, but I also saw some very good projects, and I was pleased. I think that you will be pleased next year with the Foundation's work in Grenada. We will have some good projects.

ECUADOR

Senator KASTEN. Your program in Ecuador shows a reduction. Notwithstanding our efforts to be more helpful to Ecuador, and notwithstanding the fact that in 1983 you had a very high program there, in excess of $1 million, as I look at the changes in Ecuador toward the private sector, the government there working to try to reach some of the goals that this administration shares. Why is it that in the current year, you are proposing something in the neighborhood of half of where you were just a few years ago, in 1983?

Ms. SZEKELY. Don't we have funds there?

Mr. MASHEK. Yes, we are in the area of $800,000.

Ms. SZEKELY. Yesterday, I signed a grant in Ecuador—we finished at 6:30 reviewing it, so I am really up on that one—to help us broaden our outreach in Ecuador. A group of development professionals will help in this effort. We only have one representative for the country, and he has found that he needed this extra help. We are also sending another specialist to give him a hand. I have been aware of the weakness in that program, and that is why we signed this grant.

Senator KASTEN. I have no sense of looking at weaknesses or strengths, but we are looking at trends. I have just been pleased with so much of what that government has been doing, and it seemed once more to be the kind of a climate in which your kind of program, which I enthusiastically support, ought to be flourishing.

Ms. SZEKELY. I think as a result of the grant that I signed yesterday, which takes us to the end of this year, we will have some people assisting in helping to locate possible projects. Then our field representative will visit all of the possible projects. This should help accelerate the program. We are very much aware of that.

Senator KASTEN. Senator Inouye.

Senator INOUYE. Mr. Chairman, I would like to apologize first for not being here, but we had a few emergencies. I have several questions that I would like to submit to Mr. Beckington, the first witness, and Ms. Szekely. Otherwise, I don't want to take up your time.

EDUCATIONAL TELEVISION IN CARIBBEAN

Senator KASTEN. We thank you for your help, and your questions will be submitted for the record.

I have just one final question, and it is not directly on the development projects, or the overall program, but my understanding is that you have had an interest in exploring the possibility of some kind of an educational television system or communications system, in Grenada, Dominica, and other Caribbean islands.

You and I have discussed this briefly. I wonder if you could just outline for the subcommittee your basic concept and why that might be something that would be either within your program, or may be in other places, and our subcommittee might consider some kind of an educational television, or communication system in the Caribbean.

Ms. SZEKELY. Last November, I spent several hours with Eugenia Charles, Prime Minister of Dominica. I asked, what specific things can we do to help? What she asked for was broader than the mandate of the Inter-American Foundation, but quite important. Dominica gets all of its newscasts from Miami. There is no TV, and there are only a few radio stations, but nothing that is inter-island, nothing that is communicating among the islands. Sporting events occur, but they can't broadcast them from island to island. Each island is isolated. The Prime Minister felt that it was terribly important that there be created something like a public broadcasting station, with board members from each of the islands. There would be one major station, perhaps it might be in Barbados, for instance, where the University of the West Indies is lo-

cated. There they would have a training facility. A remote control truck on every island would broadcast via satellite. With the one satellite, they would be able to broadcast to Barbados, or wherever the signal may be.

This would allow for creating programs about ecology, nutrition, family life, education, literacy, concerts, and sports, reflecting the life of each island. It would create a unit, a strong inter-island unit, each of the small islands would then, through this, have the strength of becoming united and assisting one another, and learning from one another.

One of the big problems in development that I find is that everyone reinvents the wheel. I think what is so special about the Inter-American Foundation is that we work in all the Caribbean, that we work in all of Latin America. In fact, we are the only U.S. Development Agency working in Argentina, Brazil, Chile, Colombia, Mexico, and Venezuela. The advantage of working throughout the region is reflected in the networking that allows people to network, not just the governments.

There is communication between the governments on the islands, but this allows the people to learn from each other about good ideas, good projects. Because these particular islands are English-speaking, I think you would be able to find, perhaps in USIA, or some other organization, specialists from the New York stations, who would be able to help train the people in Barbados. It would be easier to start up than a Spanish-speaking station, or the others which should follow.

Providing that kind of network would allow a great deal of communication, I would be very enthused to do anything I can to assist this effort.

Senator KASTEN. Have you had an opportunity to discuss this with others, either at AID or the State Department, or USIA, or other parts of our Government?

Ms. SZEKELY. I get a two-word answer, Gramm-Rudman.

Senator KASTEN. You know, Fritz Hollings would be angry with you.

Ms. SZEKELY. I am sorry, but they only give me two words. [Laughter.]

Senator KASTEN. I have one last question.

HAITI

The situation in Haiti, as you know, is radically changed with the departure of the Duvaliers. Has your organization—I know that it has been a short period of time—taken advantage of the situation to try to get in there and help in any way?

Elliott Abrams recently returned from Haiti, and there are a number of questions and problems there.

Ms. SZEKELY. Within 2 weeks of Duvalier's leaving, our representative went to Haiti to see what particular projects we could now support, that we were unable to support in the past. Our field representative went with a delegation from Congress 2 weeks ago, and he is not back yet. We have talked in-house of transferring a few hundred thousand dollars of program funds from Mexico to Haiti, to see what we can do to ac-

celerate the process of democratization. We only have appropriated funds to work with there. We don't have Social Progress Trust Funds in Haiti.

SUBMITTED QUESTIONS

Senator KASTEN. We look forward to working with you on that project as well. Thank you for your testimony. There will be additional questions that will be submitted to you for the record. We appreciate the work that you are doing.

[The following questions were not asked at the hearing, but were submitted to the Foundation for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

SENATOR KASTEN: The Inter-American Foundation is celebrating its fifteenth year in existence. Over the most recent years, there has been a great deal of controversy at the organization, and while things seem to be quiet at the current time, there has even been some controversy in your tenure where at times it has appeared that you were at odds with your Board of Directors. Is that situation pretty much calmed down now, or are you having some disagreement with the Board?

MRS. SZEKELY: I have a much improved working relationship with the Board Chairman, Victor Blanco. We speak often. I also provide the Board with a monthly report on Foundation operations and activities. Mr. Blanco has supported my efforts to streamline IAF operations, reduce overhead, increase our learning and dissemination efforts, and generally improve an already outstanding institution. Thus, the Foundation's work continues on with the same dedication to supporting grassroots organizations of quality that has been its hallmark for fifteen years.

SENATOR KASTEN: Are you able to work with the Agency for International Development in any of your Programs? How? What about other aid organizations, such as the Inter-American Development Bank—other than, of course, your relationship with them in the Social Progress Trust Fund?

MRS. SZEKELY: The Inter-American Foundation typically coordinates activities at the country level with USAID missions wherever there is one. Foundation Representatives maintain frequent personal contact with USAID staff. They seek not only background information on activities ongoing or contemplated, but actively seek out opportunities whereby USAID programs may be able to work with former IAF grantees who have "graduated" to bigger activities given their proven track record. In this sense, the IAF takes the initiative to help establish the infrastructure for local, private organizations which USAID missions may later support. There are a number of cases where this has occurred.

Foundation Representatives also maintain contact at the country level with the local Inter-American Development Bank offices to cross reference groups under consideration for donations and to gather information on the countries' development climate. In addition, we maintain contacts in Washington with IDB Small Projects Fund representatives regarding possibilities for complementary financing on a graduated basis. There have been a number of instances in which the IAF has financed the preliminary stages of a project and the IDB has then provided higher levels of funding for later stages of the project.

SENATOR KASTEN: Your program in Uruguay shows a significant reduction from 1984 to 1985, and in 1986 you continue that reduced program while other areas of the aid community are trying to provide increased assistance to that country. How do

you explain the rather significant reduction from 1984 levels in Uruguay?

MRS. SZEKELY: The reduction in program funding in Uruguay in 1984-1985 resulted from three factors. First, during the pre-electoral period in late 1984 and until the newly elected government was inaugurated in March, 1985, the Foundation felt it wise to maintain a lower profile so as not to be inadvertently involved in partisan politics or too closely identified with any one party or platform. This hiatus in funding coincided with a period of advanced study for the Foundation Representative for Uruguay, who attended for five-months the Special Program for Urban and Regional Studies of Developing Areas at MIT.

Second, the reduction in funding for Uruguay also corresponds to the IAF's intention to shift its funding to urban areas, where more than 80% of the country's population lives. This shift out of agroindustry, which absorbed a large part of resources in earlier fiscal years, into a greater number of small-scale, local community-based development efforts explains the lower commitment of funds overall. The IAF proceeded slowly with opening the Uruguay grant portfolio to the urban sector in order to gain a clearer idea of the new government's priorities as well as the type of urban organizations which would emerge after the elections.

Finally, for 1986 the available SPTF resources are significantly lower than in previous years. This will constrain the IAF from providing increased assistance to groups in Uruguay for the foreseeable future, despite the interesting opportunities for doing so presented by the democratic opening in the country. For example, during our last SPTF agreement, we had $1.7 million for 1983-1985, while our current SPTF agreement provides only $1.0 million for the period 1986-1988.

SENATOR KASTEN: The Inter-American Foundation's programs in Brazil were basically cut off in 1978, and there were no programs again until 1983, and it has not been a gradual reintroduction of your programs -- but you have gone back in a very heavy way, with approximately $1.5 million in the last three years.

Can you explain the situation in Brazil and how we have gone from no funding over a period of years, to rather significant amounts now?

MRS. SZEKELY: After a five-year hiatus, from 1977 through 1982, the Foundation resumed its program in Brazil. Working in cooperation with many former grantees and Foundation supporters, as well as the Labor and Foreign Ministries, the Foundation has proceeded cautiously and has gradually expanded activities in Brazil. Our grants have grown from $576,000 in 1983, to $1.28 million in 1984, to $1.59 million in 1985. In three years, the Foundation awarded 52 grants and 11 amendments to Brazilian organizations, totalling US$3,387,998.

As in other Latin American and Caribbean nations, the growth of private development agencies at the national, state, and community level has been tremendous. Brazil has enjoyed a

return to democracy, but has also suffered one of the most difficult economic periods in its history. The combination of these factors has stimulated the growth of new organizations and programs, many of which have approached the Foundation for support and collaboration.

The Foundation has also responded to broader opportunities for supporting grassroots activities in Brazil. In recent years, there has been a growing emphasis on stimulating community development efforts and broadening the participation of low-income groups in this process. The Foundation has responded by diversifying its portfolio substantially, supporting a wider range of program activities and entering new geographic regions of the country. The Foundation expects to continue this approach in Brazil, and will seek to maintain funding levels at roughly $2 million per year over the next three years.

Questions Submitted by Senator D'Amato

SENATOR D'AMATO: Considerable attention has been focused on events in Central America, a region of considerable strategic importance to the United States. More than two-thirds of U.S. trade passes through the Caribbean. In addition, if there were an emergency in Europe which required us to boost our NATO forces, 70% of the men and material would have to pass through the Panama Canal. The Soviets and their Cuban allies have targeted the region. They have dramatically increased programs to provide educational opportunities to young people from Central and South America. Meanwhile, the U.S. has fallen behind in providing similar programs.

Ms. Szekely, would you please comment on this important issue and what plans, if any, the Inter-American Foundation has to place a greater emphasis on education programs.

MRS. SZEKELY: One of the underlying principles of the Foundation is to support the building of skills and knowledge among those concerned with development. Whether one visits an agricultural credit program financed by the Foundation, a non-formal education program in literacy, or a program for abandoned street children, education and training will be at the core of the program. For example, we have provided $1.6 million to the Instituto Centroamericano de Administración de Empresas (INCAE), Central America's only graduate school of business administration, to train peasant leaders, small businessmen, community leaders and the staff of private development agencies in basic managerial and accounting skills. INCAE graduates are playing a major role throughout Central America in helping to better manage income and employment generating opportunities.

In addition, the Foundation sponsors the largest fellowship program in the Hemisphere focused on grassroots or micro-development issues. Last year we awarded 45 fellowships amounting to $536,000; of those, 19 went to fellows from Latin American and Caribbean countries.

In reviewing our grants, you will note that we do not fund regular formal education programs. We simply do not have the resources necessary to enter into this area of endeavor. We focus our limited monies on the non-formal educational opportunities which provide basic skills training to the poor, and which assist them to strengthen their local organizations to carry out a wide range of economic and social programs.

SENATOR D'AMATO: Recent events in Haiti have focused increased attention on the economic plight of the people of that impoverished nation. Please describe the Foundation's programs for Haiti and what additional assistance, if any, is planned.

MRS. SZEKELY: Haiti's poverty goes beyond that of sheer economic figures. The Foundation has found that the basic lack of community organization and education among the Haitian poor are also manifestations of that poverty, and are fundamental obstacles to economic development. Hence, since making our first grant in Haiti 13 years ago, we have consistently focused on supporting human resource development programs as a prerequisite for sustained, social and economic development.

Roughly two-thirds of the Foundation's obligations, which over the past four years have averaged $600,000 per year, go to support programs of adult literacy, development education, leadership training, and community group formation. Most of these programs are carried out by intermediary organizations.

As these organizations succeed in their work, democratic community groups that can implement local, self-help programs arise. Most of the remaining third of our obligations go directly to these community-level groups, supporting their economic programs, generally related to agricultural production, crop storage, and marketing. A small portion of our annual obligations go to organizations that provide skills training, in areas such as financial management or marketing, to these groups. Given that approximately two-thirds of Haitians are small farmers, our portfolio of grants is overwhelmingly rural based.

In 1985, we became the first funding agency to make a grant to the National Adult Literacy Campaign sponsored by Haiti's Catholic Bishops. Since the rate of adult illiteracy is close to 90%, we feel strongly that this program is a fundamental prerequisite for bottom-up development. Our grant of $551,000 helped the Bishops launch their endeavour to make up to three million adults literate in Creole over the next five years and, by so doing, receive grants from other funders to support the literacy program.

Almost immediately after the change of government, our Foundation Representative for Haiti made a special trip there to see how the Foundation could be of immediate assistance in strengthening democratic, grassroots, social and economic development programs.

We are now planning to provide as much additional support as possible to programs in adult literacy, training, civic and development education, legal services, and rural development.

The general environment for grassroots development in Haiti has expanded considerably since February, as indicated by the proposals which we have begun to receive. In view of our track record, experience, and contacts, we believe the Foundation will continue to play a crucial role in supporting key grassroots programs in Haiti. We had originally budgeted $700,000 for FY86. We now plan to double that level this fiscal year by re-allocating funds from other country budgets.

Questions Submitted by Senator DeConcini

SENATOR DECONCINI: Ms. Szekely, in your testimony you said that an increasing amount of funds were made available to small urban businesses and organizations that assist businesses. Do you intend to continue in this direction? Specifically, how does this assist the urban poor?

MRS. SZEKELY: It seems that no matter what development report one reads these days, the statistics related to urban unemployment and underemployment are staggering in both their size and scope. In one journal, it is reported that "... by the end of the century, the labor force in developing countries is expected to double—from one to two billion people." In another, "... it is estimated that the Third World will need 782 million new jobs between 1980 and 2000."

Unfortunately, it is further calculated that the agricultural sector, for decades the sole target of development activities by agencies such as the IAF and USAID, will be able to supply jobs for less than ten percent of these massive new labor forces.

Fortunately, there has been a recent shift in the interest and focus of development entities, national and international, public and private. During the decade of the 1980's, the potential of microenterprises to contribute substantively to both the social and economic betterment of developing countries has captured the attention of donor agencies. Small businesses represent an important source of productive employment for these rapidly growing urban populations, especially since the businesses are vast in number, highly labor intensive, and require fewer technical skills.

Increased employment levels generated by support for small businesses brings an attendant enhancement of earned incomes for urban dwellers. Economic betterment for people with jobs in small businesses also translates into social change for themselves, their families, and their communities in the form of educational, health, nutritional, and organizational activities.

IAF funding of small business projects, principally for credit, technical assistance and management training, has accounted for about 10% of our total grant portfolio each fiscal year. However, our support of microenterprises doubled from 7% in FY 84 to 14% in FY 85. Based on figures available thus far for FY 86, we have provided nearly $700,000 in grants for these projects, and we anticipate that about 15% of our total FY 86 portfolio will be for small business development activities.

AFRICAN DEVELOPMENT FOUNDATION

STATEMENT OF LEONARD H. ROBINSON, JR., PRESIDENT, AFRICAN DEVELOPMENT FOUNDATION

ACCOMPANIED BY PERCY WILSON, VICE PRESIDENT

AFRICAN DROUGHT

Senator KASTEN. Our next witness today is Leonard H. Robinson, Jr., the President of the African Development Foundation. We welcome you, and congratulate you on the work that you are doing. We look forward to your testimony.

Mr. ROBINSON. Thank you very much, Senator Kasten.

Let me introduce my Vice President, Mr. Percy Wilson, who is accompanying me today.

Mr. Chairman, and members of the subcommittee, I am honored to appear before you today to report on the progress of the African Development Foundation.

In March 1985, when I testified before you and your committee, Africa, as I am sure you recall, was faced with a devastating drought, which precipitated famine, death, and deforestation in some 26 countries.

With the world responding to this immediate need in an unprecedented manner, a catastrophe of even larger scale was averted. To safeguard against a recurrence of these problems, lasting solutions must be found, solutions which can withstand the onslaught of drought and other disasters.

Careful planning for long-term development made at the village level can serve as a benchmark and guiding light for determining appropriate solutions. The African Development Foundation accepts the challenge given it by Congress to take the lead in the support of development activities at the grassroots level essential in helping to accomplish this goal.

AFRICAN PROGRAMS

In February 1986, ADF celebrated its second birthday. In that short time, we have funded 65 projects initiated by grassroots organizations and individuals in 14 countries, which are geared to increasing self-sufficiency and improved living conditions. At this time, I would like to highlight some of those projects for you.

NGK WATER PROJECT, KENYA

The NGK Water Project is located in the plains below Mount Kenya, the second highest mountain in Africa. The year 1984 was a year of terrible drought throughout Kenya, and people in this area lost nearly three-fourths of their livestock. Such conditions prompted the villages of Njoguini, Gitero, and Kabati to come together as the NGK Self-Help Committee to assess their long-term water needs for both domestic and agricultural use.

The nine-member committee, made up of three members elected from each village, was formed to address the problem. In cooperation with the Ministry of Water Development, the NGK Committee decided that the best and most realistic answer to their water problem would be to provide irrigation for at least one acre for each farm, and to build water-holding tanks for domestic use.

There are currently 350 farms in a three-village area, with an average of six persons per farm, or 2,100 people. But this figure is expected to rise to 4,601 people by the year 2006, and the present livestock figure is expected to rise from 900 to 1,500 in the same period.

NGK's proposal to ADF asked for money to assist them in building a gravity distribution water system, or pipeline for irrigation, with additional water-holding tanks. After receipt of an official application, a site visit, and considerable review, a process ADF implemented in less than 4 months, ADF awarded the grant to NGK to purchase the materials for pipeline construction.

Water is now being piped from a rain forest on Mount Kenya, through the central plains area, to the three villages. The total project cost is $312,000, with ADF's contribution at $240,000. All additional funds and labor are being furnished by the villagers themselves, which are two of the most impressive facets of the project.

Faced with major constraints on several occasions, NGK demonstrated a capacity to meet them head on, and developed creative ways to overcome them. For example, most village members of the project had to walk 12 miles to get to and from the worksite.

Second, a significant portion of the pipeline's construction required the removal of large boulders which, under normal circumstances, could only be moved by heavy-duty equipment and explosives. As these resources were not available, NGK members used handtools to break the boulders into sizes which could be carried by two people. The more substantial boulders were broken through the use of thermal shock, a method which requires heating the rocks with diesel paraffin and firewood, and then pouring cold water on them.

This ADF-sponsored project will assure NGK villagers a dependable supply of water for domestic and agricultural use, and it is estimated that the average, annual income of farmers could more than triple from $383 per annum to $1,186, as a result of the irrigation.

A former Peace Corps volunteer in the area has been serving as the technical adviser for the pipeline construction. A local Kenyan technician was hired as the comanager, and after a period of management training, will take over as the permanent project manager.

A recent editorial in the Washington Post by Donald McHenry and Lawrence Eagleburger, cochairmen of the Committee on African Development Strategy, stated, and I quote:

> The support we give must be money directly linked to policy reforms in the recipient countries and specifically earmarked for high-priority investments that will have high rates of return. In other words, the cash we provide must be tied to programs that will raise living standards. They must be carefully planned and monitored to make certain they are used for the designated purposes and not to make rich people richer.

GRASSROOTS LEVEL APPROACH

ADF sincerely believes that one of the most effective approaches to foreign assistance is that which is focused on and responsive to people at the grassroots level. Positive response increases incentive, and discourages people from looking for handouts. This philosophy is shared by most donor organizations and Members of Congress.

In fiscal year 1987, the Foundation will place emphasis on refining financial and administrative policies and procedures, and in the systematic evaluation of ongoing projects. Data collected through audit, and monitoring and evaluation activities will be analyzed and processed into policy and program briefs, and through ADF Journal Advance, and disseminated to the African and international development communities.

We believe that ADF is beginning to make a difference and a contribution to Africa's development. The track record thus far speaks for itself.

PREPARED STATEMENT

That concludes my statement, Mr. Chairman. I will be very happy to answer any questions you and the members of the committee have.

[The prepared statement of Mr. Robinson follows:]

AFRICAN DEVELOPMENT FOUNDATION

STATEMENT OF LEONARD H. ROBINSON, JR.

PRESIDENT, AFRICAN DEVELOPMENT FOUNDATION

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In March 1985, when I testified before you and your Committee, Africa, as I am sure you recall, was faced with a devastating drought which precipitated famine, death and deforestation in some 26 countries. With the world responding to this immediate need in an unprecedented manner, a catastrophe of even larger scale was averted. But serious remnants from the devastation continue. In most of the affected countries, the forests must be replanted, farming mechanisms must be restored so that food production can be increased, nutrition must be balanced, and education needs must still be met. To safeguard against a recurrence of these problems, lasting solutions must be found...solutions which can withstand the onslaught of drought and other disasters.

Careful planning for long term development made at the village level can serve as a benchmark and guiding light for determining appropriate solutions. The African Development Foundation accepts the challenge given it by Congress to take the lead in the support of development activities at the grassroots level, essential in helping to accomplish this goal.

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of an official application, a site visit and considerable review, a process ADF implemented in less than four months, ADF awarded the grant to NGK to purchase materials for pipeline construction.

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result of the irrigation. A former Peace Corps Volunteer in the area has been serving as the technical advisor for the pipeline construction. A local Kenyan technician was hired as the co-manager, and after a period of management training, will take over as the permanent project manager.

The COPCC PROJECT is located in Bamako, the capital of Mali, a country in the Sahel region of Africa. COPCC, the acronym for the "Centre d'Orientation Professionnelle de Coupe et Couture", or the Center for Professional Training in Sewing and Design, was founded by ten women in 1972, interested in learning a profession to earn a living.

In Mali, one of the poorer nations in Africa, few children are able to attend secondary school, and as a result, there is a large and growing population of young, unemployable dropouts. The situation is even more critical for female dropout's, because women are frequently denied access to the mainstream, and married women are often chastised for their inability to contribute to the family budget.

COPCC, created to address these problems, evolved into a vocational school, open to all women regardless of age, race, religion or educational level. The number of students increased yearly to 200, but a fire in 1979 totally burned down the original facility. The present staff and students were relegated to one room. COPCC applied to ADF for funds to construct a building for 500 students, and to stock the school with equipment and supplies. The project also will expand curriculum to provide a course in functional literacy and typing for those who can read. A small shop will be on the premises to provide retailing capability.

The $14,000 ADF Grant enabled COPCC to construct a facility containing two additional classrooms and two small offices. Enrollment will be doubled from 200 to 400 students. The school, a non-profit organization, pays its staff out of tuition receipts. With the doubling of enrollment, it will be able to generate an estimated $18,500 or 7,000,000 West African Francs, which should easily cover operating costs and put COPCC on sound financial footing.

A fortunate spinoff of the ADF grant was the response of the Mali National Railroad Company, owner of the land. Impressed with COPCC's entrepreneurial initiative and the ADF grant award, the company provided COPCC with long-term rights to the property.

In the past year the Foundation has also been able to accomplish several other milestones or key activities which will better insure successful performance of the ADF-Congressional mandate:

- There has been the appointment, under ADF contract, of three Africans as Field Liaison Officers or FLO's, who are African development specialists, experienced in rural development and management. Each FLO has been assigned to one of ADF's regions, Eastern, Southern or the North Africa/Sahel. Their major function is to monitor ADF-funded projects and assist grantees in identifying potential local technical assistance resources. The FLO's began work in late 1985, and completed an intensive orientation training program at ADF headquarters in

Washington. Their other responsibilities will include providing logistical support for visits of ADF's Board and Staff; and facilitating visits to ADF projects by other interested parties, for example, members of Congress and U.S. agency officials.

- We have established and partially staffed the Office of Research and Evaluation. This office will evaluate and monitor projects funded by ADF; review research proposals; perform or oversee ADF project evaluations; and, from time to time, initiate through African institutions research of specific development problems. The R&E Office will also assist grantees in conducting self-evaluations of their own development activities. I would like to mention that the new director of this office recently visited a dozen ADF projects, and has reported that, on the whole, implementation activities were proceeding in an impressive manner. People considered the projects to be their own, and took pains to demonstrate that funds were being properly spent, and that files were detailed and complete.

- Mr. Glen Fortinberry, Chairman of the Board and CEO for Ross-Roy Advertising Agency, was appointed Chairman of the ADF Advisory Council in November 1985. The Council met two times in 1985, with Council membership now standing at 28 outstanding individuals.

- Planning was initiated for the ADF Research Fellows Program, which will be operational in FY'86. The objectives of the Fellow's program are to provide an opportunity for African scholars, social scientists, and development practitioners to examine new and innovative ways of serving Africa's poor, and to disseminate research findings of micro-development approaches to appropriate U.S. and African development organizations and policy makers. One Fellow will be selected annually from each of the five African regions targeted by the ADF for a 12-month fellowship. Research findings will be prepared for publication and submitted to ADF. Fellows will be selected on or about the last day of June, 1986, to commence their research in September, 1986.

- The publication of the ADF journal, ADVANCE, (African Development Views As New Challenges Emerge), is scheduled for release in August 1986. ADVANCE will focus on African grassroots development issues as reflected through ADF-funded projects, and will also feature noteworthy achievements of other grassroots development organizations. We believe this journal will fill an important gap, since there is no similar publication with a focus specifically on African development.

A recent editorial in THE WASHINGTON POST by Donald McHenry and Lawrence Eagleburger, Co-chairmen of the Committee on African Development Strategies, stated, "...the support we

give must be money directly linked to policy reforms in the recipient countries and specifically earmarked for high-priority investments that will have high rates of return. In other words, the cash we provide must be tied to programs that will raise living standards. They must be carefully planned and monitored to make certain they are used for the designated purposes and not to make rich people richer."

ADF sincerely believes that one of the most effective approaches to foreign assistance is that which is focused on and responsive to people at the grassroots level. Positive response increases incentive, and discourages people from looking for "handouts." This philosophy is shared by most donor organizations and members of Congress.

As I mentioned earlier, ADF has funded over 65 projects in 14 countries, and intends to fund projects in five more countries by the end of 1986. Total ADF program assistance stands at $4 million. In 1985, the average grant was $62,000, with only one exceeding $200,000. Our projects funded in 1984-85 ranged in dollar figures from $250,000 for the Dalakana Integrated Village Development in Mali, to the $700 Small Trader Project in Niger. The Malian project was designed to improve the standard of living in and around the village of Dalakana, by increasing agricultural production, education, health, and cooperative management. The $700 project in Niger is enabling a nomadic clan, undergoing a transition to sedentary life, to finance a small dry-goods kiosk that will service nomads, traveling through the area and eventually become a community center.

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ADF continues to explore ways of meeting the urgent credit needs of small-scale businesses and agricultural enterprises. In recognition of the fact that small loans to newly emergent entrepreneurs requires intensive staff support on the ground, the Foundation has sought to identify and fund local intermediary institutions which have the capability, but lack the resources, to manage credit programs appropriate to local needs.

ADF projects in Rwanda, Lesotho, and Kenya are experiments in different loan approaches focused on working with such local intermediaries, primarily to assist small landholders to expand agricultural production by making small amounts of credit available. In addition, we are examining the possibility of providing equity capital to small scale enterprises to augment locally available credit, again utilizing indigenous intermediary institutions.

In fiscal year 1987, the Foundation will place emphasis on refining financial and administrative policies and procedures and implementing the systematic evaluation of on-going projects. Data collected through audit and monitoring evaluation activities will be analyzed and processed into policy and program briefs, and disseminated to the African and international development communities.

We believe ADF is beginning to make a difference and a contribution. The track record, thus far, speaks for itself.

OPERATING EXPENSES

Senator KASTEN. Mr. Robinson, thank you.

You are requesting $1,595,000 for management and administration in 1987, that is $52,000 less than was appropriated in 1986. How many staff does the Foundation have at this time, and how does that compare with the number of staff that you project for 1987?

Is your staff being cut back, or how are you reallocating your resources?

Mr. ROBINSON. What we are doing, Mr. Chairman, is trying to, as the Foundation has placed most of its management systems in place and are functioning, we are trying to reduce our administrative costs, to push more money into the program side of the balance sheet.

We presently have 25 or 26 full-time equivalents on our staff. This is the OMB imposed ceiling at this point in time. No increase in staff in terms of full-time equivalents is projected for fiscal year 1987.

Senator KASTEN. Maybe this relates to what you just said, but you are requesting $1,120,000 for project review and monitoring, and that is $145,000 more than in 1986. Does any of this $1.1 million include salaries, and could you give the subcommittee some details on the request for the increase on project review and monitoring, what are these funds for?

Mr. ROBINSON. Some of that increase is reflected in the fact that we will be hiring people on contract, especially people at the local level or in Africa, to assist us in the monitoring of projects and the evaluation of those projects.

We have just recently hired and trained three field liaison officers. These are Africans who are development specialists. One has been located in Nairobi for East Africa, one in Harare for Southern Africa, and a third person is located in Niger for Sahel and North Africa. They will be assisting our Foundation representatives to more frequently visit and monitor ongoing projects in the field.

USE OF LOCAL LABOR SOURCE

Senator KASTEN. Some of the people that you have identified over in Africa are people that you have hired in Africa, and who are now working for you full- or part-time?

Mr. ROBINSON. That is right.

Senator KASTEN. In those regions, but are they from those regions?

Mr. ROBINSON. They are from those regions, so they know the territory. We have five regions in Africa, and we expect to be hiring two additional local field liaison officers within the next few years.

PERSONNEL ON PERSONAL SERVICE CONTRACTS

Senator KASTEN. How many people do you have on personal service contracts, and how does that number compare to last year's?

Mr. ROBINSON. We don't have any professionals on personal services contracts. We have a few people, students or stay-in-school types, who are part of our support staff, our administrative support staff. We have reduced to zero, especially those based in Washington, DC, those people that we had on board 2 years ago under personal services contracts.

So all of our professionals involved in program development, analyzes, and evaluation, and management are all full-time equivalent employees.

RELATIONSHIP WITH AFRICAN DEVELOPMENT BANK

Senator KASTEN. We asked you this last year, but I am interested in your relationship with the African Development Bank, and how that is working out in terms of the way you interact and coordinate with them, and what kind of relationship do you have with the African Development Bank?

Mr. ROBINSON. We are beginning, Mr. Chairman, to establish a very close working relationship with the African Development Bank. We believe that the African Development Bank is one of the more credible development institutions on the continent of Africa. The new President of the bank has a very good, impeccable reputation, not only in Africa, but in the international development community. During the past 4 to 5 months, we have had a number of very detailed discussions with officials of the bank, not only in the Ivory Coast, but here in Washington, DC.

In order to energize and operationalize coordination between the Bank and the Foundation, and in an effort to leverage the Foundation's limited resources, we hope to enter into a cooperation agreement with the African Development Bank within the next month or so, so that we can, first of all, draw upon the information that the Bank has at its command, especially with respect to institutions throughout Africa they are lending funds to. The Bank has an interest in trying to penetrate the grassroots level in terms of energizing the private sector. If we can move toward the possibility of cofinancing some projects, some small scale enterprise projects with the African Development Bank, that would help the Foundation to leverage its limited resources.

So we are moving fairly definitively toward a more formal cooperative and coordinated relationship with the African Development Bank.

ASSOCIATION WITH IFAD

Senator KASTEN. I am going to yield in just a moment to Senator Inouye, but just one followup question that fits in.

You also have to work with IFAD, the International Fund for Agricultural Development. They are active in Africa. What kind of a connection do you have with them, and have they been able to be helpful to your program?

Mr. ROBINSON. Currently, we have no formal, ongoing relationship with IFAD. I am sure that some of our Foundation representatives have individual relationships with IFAD, but in terms of each institution, we do not have at this time a formal relationship.

Senator KASTEN. Senator Inouye.

Senator INOUYE. Thank you very much, Mr. Chairman. I have several questions I would like to submit, and a few, I believe, can be taken up at this time.

BUDGETING FOR ADMINISTRATIVE COSTS

I just heard testimony from the Inter-American Foundation and the chairperson indicated that 15 percent of her budget is being spent for administrative costs. What percentage of your budget is being spent for administrative costs?

Mr. ROBINSON. Senator Inouye, if you do not include the funds that we use to monitor projects, to evaluate projects, and to develop projects, approximately 24 percent of our total budget goes for management and administration, which, given the fact that the Foundation is relatively new and we are just in the process of beginning to finalize putting all of our management and monitoring systems in place, I think is quite commendable, especially given the fact that Africa is the most expensive region in the Third World to do business in.

Senator INOUYE. If you add the monitoring activities, what percentage is it?

Mr. ROBINSON. I would think somewhere between 30 and 35 percent.

Senator INOUYE. I note, on your letterhead, that you are in Suite 600, 1625 Massachusetts. Wasn't that the address for Appropriate Technologies, Inc.?

Mr. ROBINSON. That is where we used to be. We used to be at 1725 Massachusetts Avenue, where we had a sublease with the Appropriate Technologies Institute. We had to move across the street, to a new building, because the Appropriate Technologies' lease for the former building that we were in expired. We were forced to look for new facilities.

Senator INOUYE. Appropriate Technologies, if I recall, was one of those agencies that appeared before us. My recollection is that they moved out of that address because it was too expensive. I was just wondering what you were doing there.

Mr. ROBINSON. When we got the sublease, the effective rate per square foot, Senator, in that particular area, was under $20. The going rate in the Massachusetts Avenue area, the downtown Washington area, is anywhere between $26 and $34 per square foot.

In the new building that we are in, the effective rate per square foot is $21.50, so we have only had an increase of 50 cents over where we were across the street. The sublease that the Foundation had at 1725 Massachusetts Avenue was effected under the first administration of the Foundation. We feel that the Foundation should be based in Washington, DC, so that we can receive a large number of African government officials, and other Africans who come to the Foundation just about every day. It is readily accessible not only to our guests, but it is readily accessible to the Capitol for the business that we have to do here as well.

EFFECTIVE SQUARE FOOTAGE RATE

Senator INOUYE. What is the effective rate that you speak of?

Mr. ROBINSON. The effective rate—in negotiating square footage in the Washington area these days, a number of factors are taken into consideration. There is usually rent abatement of 3 or 4 months depending on what terms and conditions you work out. With respect to all the factors that went into our negotiating our lease with the owner of the building, the rate that we are paying is $21.50 per square foot.

FIVE-YEAR BUDGET PROJECTION

Senator INOUYE. If you were able to project your activities for the next 5 years, what sort of budget would you anticipate?

Mr. ROBINSON. We do have, as I think you are aware, Senator Inouye, we do have a 5-year plan, which was very laboriously and very thoroughly put together. That 5-year plan was implemented last year. At the rate that we are currently progressing, all things considered equal, we project that by the year 1990 the Foundation would receive an appropriation of around $30 million. That would have us operating in approximately 45 of the 51 countries in Africa.

Senator INOUYE. How do you set your priorities among the poorest of the poor there when you don't have enough money?

Mr. ROBINSON. How do we set our priorities in terms of projects, or in terms of country?

Senator INOUYE. In terms of projects.

Mr. ROBINSON. As you know, Senator, the Foundation was established by Congress to be responsive directly to the requirements and the aspirations of the African people themselves. ADF has been granted a tremendous amount of flexibility through its congressional mandate. We have steadfastly tried to adhere to this flexibility by not developing strategies here in Washington, DC, to impose on the people of Africa. Therefore, we have maintained the ability to remain in a responsive mode.

I would characterize most of the projects we have funded to date into the areas of agriculture, irrigation, or water systems, and small private enterprise development. We have also provided assistance to refugees and nomads who are trying to move to a more sedentary or settled way of life. In fact, I was just in the Sahel, and had an opportunity, a rare opportunity, to meet with a number of herders from the Wodabi Tribe who have traditionally roamed back and forth between parts of the Sahara Desert. They said to me in the most convincing of terms that the desert has changed, that the environment has changed, that they believe the droughts we have seen over the past 10 years, from 1973 to 1984, will become much more frequent. The herders believe if they do not make the adjustment now—the transition from a nomadic way of life to a more sedentary way of life—they will die as a people.

Thus, we tend to rank our priorities according to what comes across the transom, so to speak, at the Foundation. But in terms of what we have funded, those projects do fall within the priorities we think relate to Africa at this point in time, agriculture, food production, particularly at the village level, irrigation systems, small scale industrial development, and some educational and training programs.

PROJECT PROPOSALS

Senator INOUYE. I know of your flexibility and I am all in favor of it. Who in Africa, or in this country, transmit these suggested programs? Is it the heads of state?

Mr. ROBINSON. No government officials, to my knowledge, have sent us any project proposals. We do have a very thorough screening process. Occasionally, a low-level or mid-level civil servant may submit a project proposal from a village that he or she may be affiliated with. But during the process of assessing and analyzing projects in the field for suitability and viability, for legitimacy, if you will, our Foundation representatives are under instructions to check out and confirm that the requests we are receiving are coming from the private sector, and not from the government sector.

The demand from the private sector in Africa for assistance from the African Development Foundation has been absolutely overwhelming.

Senator INOUYE. How do they communicate?

Mr. ROBINSON. They communicate with us through letters written on stationery that you and I would be accustomed to use. In some cases, we receive proposals written on scraps of paper, paper bags.

The project we funded for the Wodabi herders came in on a paper bag which had been ripped apart. What they proposed was legible, and it turned out to be viable, so we funded it.

The drums, and I am not being facetious, the drums do work in Africa. The message has spread like wild fire across the continent that the Foundation is open for business. I think the approach of the Foundation is revolutionary. I have yet to see any African official, from Heads of State on down, frown upon the basic approach of a U.S. Government corporation providing funds directly to the private sector, and not through government entities. This is very heartwarming to all of us who work with the Foundation.

Senator INOUYE. Does the Board decide here, or do you decide?

Mr. ROBINSON. The Board decides. The review and approval process is roughly like this. The proposal comes to the Foundation. There is an initial or preliminary screening process. If the proposal falls within the criteria for funding for the Foundation, then the appropriate Foundation representative, or the field liaison officer based in Africa, will then assess that project in the field. This process may take a week or two, or longer.

The project comes back to Washington, DC, and it is prepared for submission to the Project Review Committee. This review committee is headed up by my vice president, Mr. Wilson, and consists of senior of-

ficers in the Foundation. If the project scores 70 points or above—we have a rating system—it is then approved and referred to the Board's Program Review Committee. The chairman of the Board's Program Review Committee resides in the Washington, DC, area, so do the members of the committee. The committee meets on an average of once or twice a month and reviews all of the proposals that have been forwarded to it for consideration.

I would say that less than 5 percent of the proposals that are presented to the Foundation are approved, so I think that we have a very thorough system.

Senator INOUYE. Thank you very much. I have other questions for the record.

Senator KASTEN. Thank you, Senator.

MDB PROGRAMS IN RELATION TO ENVIRONMENTAL ISSUES

I have one final question, and you have heard me ask the same question to Deborah Szekely earlier. I have been very concerned about the projects and the programs of the multilateral development banks as they relate to environmental issues. It is clear that those institutions are not taking precautions, and I am talking about the multilateral development banks have not taken protection of the environment in sufficient account as they approve projects around the world, and we are going to do something about that. In fact, to a great extent, this subcommittee already has.

I have seen films, and I have received other information about a number of projects in Africa, particularly having to do with irrigation programs, different kinds of cattle programs, and others, which have been devastating in many cases to the environment.

What does your organization do in terms of making sure that the projects that you approve are not environmentally harmful? Do you have any kind of an environmental checkoff? Do you pay attention to that? Do you have any professional environmentalists who review the projects at every step along the way in the process that you just described for Senator Inouye?

Mr. ROBINSON. Mr. Chairman, to some extent, the response to this question which was provided by Deborah Szekely is somewhat applicable to the African Development Foundation. Our projects are small, and in many cases pose no immediate threat to the environment. However, in the past 4 months, a number of my officers on the Project Review Committee, who are either ex-AID officials or ex-Peace Corps officials, have raised questions in the process of reviewing specific proposals of an environmental impact nature.

I have discussed with my senior staff whether or not we should move to implement a formal system to look specifically at the consequences of ADF-assisted projects on the environment.

At this point, we do not have a systematic environmental impact exercise. Our director of research and evaluation, Dr. Gerry Cashion, has raised this issue in particular in the past 2 months. But I would also

like to point out that the Africans themselves, particularly at the village level, we have discovered, are so close to the environment and to nature, that they are acutely aware of the potential impact of many of the projects that they have asked us to fund.

Again, I was just recently in the Sahel, and in Mali, in particular, there is a project we funded early on in the Foundation's history, in fiscal year 1984, in the village of Narena. They have constructed a dike which is designed to trap water so that fish will begin to return to an area which 10 years ago was completely innundated by water. The water will also be used to irrigate vegetable gardens.

Prior to Dr. Cashion going out to Mali 2 months ago to evaluate this project, the villagers themselves had already indicated to us, in a progress report, as well as to Dr. Cashion when he arrived on the scene, that they were concerned about what may happen when standing water has been around for some time, as to whether or not mosquitoes or malaria may return, or the possibility of Bilharzia returning.

There is some awareness at the village level as to what consequences of some of these projects may entail. I do think that in the near future, in about a year or so, we will probably move toward a more formal way of measuring the environmental impact of some of our projects.

Senator KASTEN. This is something that this subcommittee has a particular interest in, and we have been working with the World Bank, and the Inter-American Development Bank particularly, but more and more with the African Development Bank, and others in terms of this kind of basic environmental concern, not only the chemicals and the pesticides. I know that there are numerous problems with certain chemicals and certain pesticides, certain fertilizer systems, et cetera, on the continent of Africa, there is no question about that. The kind of spraying, for example, that Ms. Szekely was referring to, I know cause certain problems in Africa, although not necessarily under your particular area.

There are also very serious problems of loss of top soil, going down rivers, because of haphazard planning, and also some issues with regard to placing cattle in certain areas, in fields, in certain cases, partial forests that were capable of supporting indigenous species, but not capable of supporting beef cattle over the long haul. They might be able to do it for a season or two, but at the end of that there is no grass left, and then you start seeing the soil going down.

We would be anxious to continue to work with you in terms of showing a sensitivity toward these kinds of problems. I think in the long run, it is going to be a major concern of not only this subcommittee, but of the Congress.

I have some additional questions that we intend to submit for the record. I would like to say thank you for your testimony here today, but more importantly for the work that you are doing. We would like to work closely with you in support of your activities.

SUBMITTED QUESTIONS

This concludes the afternoon's hearings. I would like to thank all of the witnesses for their testimony. Members of the subcommittee, as I have said, will have questions to submit for the hearing record. We would expect the witnesses to supply answers within 2 weeks of receipt of the questions.

[The following questions were not asked at the hearing, but were submitted to the Foundation for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

AFRICAN DEVELOPMENT FOUNDATION

SENATOR KASTEN: Just how is the Foundation getting the word out to the African communities that they can apply for grants?

MR. ROBINSON: Contact is established in a number of ways. Initially, U.S. private voluntary organizations (PVOs) operating in Africa were asked to identify for the Foundation grassroots groups and indigenous national organizations that work directly with local groups. Meetings with these groups served to make ADF known to the local development community, some of their more active constituents, and groups which had previously been unable to fulfill their need for development assistance through either local nongovernmental organizations or PVOs.

Since those early days, ADF's network of contacts has expanded, both in Africa and the United States, to include African private sector organizations, as well as the U.S Embassies, AID, and Peace Corps missions, and the African diplomatic corps, all of whom have been cooperative in making ADF known to its grassroots constituents. Finally, local media coverage of staff visits and stories about ADF grants in local papers and radio, and Voice of American interviews with ADF representatives, sometimes in the local language, have also served this purpose. The result has been over $45 million in requests for assistance.

SENATOR KASTEN: How many of your staff travel to Africa for site visits?

MR. ROBINSON: Site visits are made by Foundation Representatives, and more recently by Africans who have been hired as Field Liaison Officers, primarily to monitor projects. Senior staff and Board members have also made site visits to grantees and applicants in connection with their other duties. Other staff with special functional responsibilities, eg. evaluation, legal or financial, have also visited actual or proposed project sites as the need has arisen for their expertise.

SENATOR KASTEN: After a grant application is approved, how often do your staff visit to monitor the projects?

MR. ROBINSON: Frequency of monitoring visits may vary with the nature and complexity of the project. However, on the average they occur at least twice annually, the first within the first three months of project startup, and then again, near the end of the project year. The appointment of Field Liaison Officers as project monitors has allowed the Foundation to adhere to this intensive monitoring schedule, while reducing associated travel costs.

An evaluation/monitoring plan, which includes a schedule of staff visits to the site, is required of all projects. In addition, a schedule of visits by indigenous audit firms is also agreed upon with the grantee early in the life of the project. These audits are designed to monitor financial activities and to assist the grantee in resolving fiscal issues.

SENATOR KASTEN: Has the Foundation received grant applications from communities through Peace Corps Volunteers? How closely does the Foundation work with the Peace Corps in Africa? With A.I.D.?

MR. ROBINSON: Peace Corps Volunteers are encouraged by Foundation staff to spread the word in the communities where they are assigned about the ADF, and the types of projects which it funds. They can be of assistance in helping their host country co-workers in formulating proposals, often supplying technical information that might otherwise be inaccessible to the village or group with whom they are working. Foundation Representatives and Field Liaison Officers, one of whom is a Kenyan employed by the Peace Corps for many years, meet frequently with Peace Corps staff members and Volunteers in each country. Additionally, ADF has established a close working relationship with Peace Corps staff in Washington, and has benefitted from Peace Corps' experience in managing a Government foreign assistance program.

ADF is, of course, formally connected with AID through the membership of Mr. Mark Edelman, the Assistant Administrator of the Africa Bureau, on our Board of Directors. However, since the Foundation's basic concept is one of reacting to African requests for assistance they deem necessary, we do not pursue the country strategies, priorities and plans which guide the AID program. On the other hand, Foundation Representatives and Liaison Officers meet with AID Mission Directors and staff regularly to exchange information to avoid duplication, and where appropriate, enhance each others activities. Again, as with the Peace Corps, ADF staff has also benefitted from the administrative and management experience of AID personnel both in Washington and the field in refining our own operations. It is our belief that ADF complements the work of both agencies.

SENATOR KASTEN: From the time you receive a grant application, approximately how much time passes before the application is approved or disapproved?

MR. ROBINSON: ADF currently requires a site visit prior to approving a project. A decision whether to fund a project is usually made and communicated to the applicant within four to six months of this visit.

SENATOR KASTEN: Your congressional presentation document shows as total obligations for FY 1986 $6,161,000 for FY 1986. Does the remaining $2,455,000 come from prior year funds? If so, as of the end of FY 1986, will the Foundation have obligated all prior year funds?

MR. ROBINSON: In the first year of its operations, the Foundation received $4,500,000 of no-year funds which had been appropriated prior to the commencement of operations. The $2,455,000 you refer to is the unobligated balance of these funds. All prior year funds and all current year funds will have been obligated by the end of FY 1986.

Questions Submitted by Senator D'Amato

Considerable controversy has surrounded the African Development Foundation (ADF) since its establishment. My particular concerns center around the administrative aspects of the Foundation.

SENATOR D'AMATO: What percentage of ADF's budget is devoted to administrative costs?

MR ROBINSON: Foundation expenses for management and administration are expected to consume $1,595,000, or about 24% of our 1987 budget of $6,500,000.

SENATOR D'AMATO: What efforts have been made to reduce these costs?

MR. ROBINSON: Although the cost of doing business in Africa and the one-time costs involved in building a new Foundation are high, we are proud of our track record so far, and have been working hard to reduce our management and administrative costs. Because of our low over-all funding level, we are unable to achieve the economies of scale necessary to sharply reduce the percentage of our budget devoted to administrative costs. Nevertheless, we expect to steadily reduce the share of our budget devoted to administrative costs over the next few years.

SENATOR D'AMATO: What percentage of ADF's funds are derived from private sources?

MR. ROBINSON: To date, we have not received any funds from private sources.

SENATOR D'AMATO: What efforts has ADF undertaken to increase the level of funding from private sources?

MR. ROBINSON: As a U.S. Government corporation, ADF is funded through appropriations voted annually by the Congress. However, ADF's legislation does permit the Foundation to accept gifts of services, property, and funds to use in furtherance of its purposes. Pursuant to this authority, we are exploring the possibility of securing limited amounts of funding to assist in the publication of ADVANCE, the Foundation's Journal on grassroots development. We have also received some indications of interest by the private sector in funding grassroots projects through ADF. However, discussions on this and other proposals to integrate funds from private sources into Foundation operations are still at a very preliminary stage.

SENATOR D'AMATO: What are the project costs associated with grants by the ADF? For example, how much does it cost you to make a $10,000 grant?

MR. ROBINSON: Our grants vary significantly in the amount of time and effort required to review, analyze and award them. There are also significant differences in the travel costs depending on the country. Taking into account such items as review of the proposal, visits by the Foundation staff to the grant site, presentation of the project to our Project Review Committee and Board of Directors

for review and preparation of the grant document, I would estimate that the cost for a ten thousand dollar grant would be approximately $3,000. As the size of projects increase, the average costs of funding them as a percentage of the amount of the project decrease dramatically through the operation of economies of scale. Another $500 to $1,000 might be spent on program and financial monitoring of the grant during the life of the project.

SENATOR D'AMATO: Would you briefly describe the criteria used in the grant process?

MR. ROBINSON: The Foundation subjects every request for development assistance to a highly structured and rigorous review process in which the following criteria are applied to determine whether a project merits funding:

Upon receipt, project proposals are subject to an initial screening by the Office of Program and Field Operations to determine whether the request falls within the ADF mandate. The criteria applied to make this determination are: 1) the project funding requested must not exceed $250,000; 2) the project must be proposed by an indigenous African group or individual responsible for its implementation; 3) the project must, to the maximum extent feasible, include the poor in its design, implementation, and evaluation; 4) the group or organization proposing the project must be nongovernmental.

Proposals which meet these criteria are then visited by a Foundation Representative who administratively covers the country from which the proposal has originated. The Foundation Representative must determine whether the proposal, when viewed on the ground, not only falls within the mandate, but whether the project goals are technically achievable. If so, he or she must also evaluate whether the community or group which will implement it has the human resources, the degree of organization, access to the technical resources, and the track record in development to successfully carry the project through to fruition. The project's potential to achieve self-sufficiency, and whether it will be income generating, are also examined. Finally, environmental, financial, social, and evaluative concerns are addressed.

The Foundation Representative prepares documentation for projects which merit further consideration, and presents it to the Project Review Committee for approval. This committee, made up of seven senior staff members of the Foundation, reviews projects based on programmatic, institutional, social, environmental, economic, administrative, and financial criteria identical in most respects to those applied by the Foundation Representative in screening the proposal. In this context, the Committee also focuses on such issues as: the sustainability of the project after ADF funding is completed, the replicability of the project, its value as a previously unexplored approach toward resolving a developmental problem, its cost effectiveness, auditability, and potential for institutional development.

The final step, following approval by the Project Review Committee, requires submission of the proposal to the Foundation's Board of Directors for their concurrence. The Board utilizes the same

criteria in determining whether it will endorse the Project Review Committee's decision whether the project should be funded.

SENATOR D'AMATO: Pursuant to Public Law 98-151, the President is required to submit a report to Congress on voting practices in the United Nations. This report assesses the degree of support of the United States Foreign Policy in the U.N.

After Reviewing ADF's report on funded projects, I compared the list of grant recipients with the report on voting practices and found some interesting facts.

The average for all African countries was 12.8 percent.

The following recipients were below average:

Botswana	12.5%
Ghana	12.1%
Kenya	12.1%
Sierra Leone	11.3%
Lesotho	11.3%
Zambia	11.3%
Mali	10.4%
Zimbabwe	9.3%

Even the Soviet Union had a better record (13.2%).

Why aren't more ADF grants issued to nations which support the United States and its foreign policy?

MR. ROBINSON: ADF was established by Congress as an independent Government corporation in order that it would have the autonomy and flexibility to carry out its mandate to directly fund nongovernmental, grassroots initiatives for change. The Foundation is a unique experiment for the United States Government in Africa, a people to people program which can respond directly to the expressed needs of the African private sector. The legislative history of the ADF Act leads one inescapably to the conclusion that to carry out this experiment effectively, the Congress intended ADF, like the Peace Corps, to be free from the constraints of short term foreign policy considerations. Hence, it has been the policy of the Board of Directors, since ADF's inception, to consider proposals from private groups, organizations and individuals in any country with which the United States maintains formal diplomatic relations.

Questions Submitted by Senator DeConcini

SENATOR DECONCINI: Mr. Robinson, a GAO report of May 5, 1985 on your Foundation noted that you were beginning to develop operational and administrative procedures which include financial controls and requirements for grantees receiving assistance in Africa. Have these procedures been put in place? Have these proven to be effective in assuring that grant assistance has been used as intended and diversions from accounts have not occurred? Have you experienced problems in Kenya? Liberia?

MR. ROBINSON: Yes, I am pleased to say that, even as the report which you allude to in your question was being disseminated, we had already completed the establishment of what I believe to be effective financial controls and requirements for our grantees in Africa. In designing these controls, we have leaned heavily on the experience of the IAF and other organizations so as not to repeat mistakes that have been made before.

Our procedures are not foolproof, but are designed to give the greatest return on the dollar, balancing the cost of administering the controls with the potential losses from mismanagement of grant funds.

To date, our experience with respect to financial control of our grants has been extremely positive. Most of our grantees, who are receiving funds to implement projects which they themselves designed to meet their own needs, treat those funds as their own, and, as a result, are scrupulous about accounting for every penny. For our part, we are careful to ensure that grantees have the necessary financial capabilities and that funds are disbursed only as they are needed.

Nevertheless, we are not immune to the problems that affect other, similar, organizations. For instance, there are some programmatic issues in connection with projects in Liberia and Kenya, and we are working with local audit firms to determine their nature and extent. Based on what we have learned to date, we do not anticipate any major problems nor loss of funds.

SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee will now stand in recess until April 15, when we will hear testimony from Peter McPherson, the Administrator of AID.

[Whereupon, at 3:29 p.m., Thursday, April 10, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, April 15, 1986.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1987

TUESDAY, APRIL 15, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:05 p.m., in room S–126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, D'Amato, Specter, Inouye, Leahy, and DeConcini.

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF M. PETER McPHERSON, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

ACCOMPANIED BY:

MARK L. EDELMAN, ASSISTANT ADMINISTRATOR, BUREAU FOR AFRICA

CHARLES W. GREENLEAF, ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND THE NEAR EAST

DWIGHT A. INK, ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA AND THE CARIBBEAN

NYLE C. BRADY, SENIOR ASSISTANT ADMINISTRATOR, BUREAU FOR SCIENCE AND TECHNOLOGY

R.T. ROLLIS, ASSISTANT ADMINISTRATOR, BUREAU FOR MANAGEMENT

JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, BUREAU OF FOOD FOR PEACE AND VOLUNTARY ASSISTANCE

NEAL PEDEN, ASSISTANT ADMINISTRATOR, BUREAU FOR PRIVATE ENTERPRISE

JULIA V. TAFT, DIRECTOR, OFFICE OF FOREIGN DISASTER ASSISTANCE

CHRISTIAN R. HOLMES, DIRECTOR, OFFICE OF TRADE AND DEVELOPMENT PROGRAM

DAVID A. SANTOS, DIRECTOR, OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD

OPENING REMARKS OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

This afternoon, we will continue the fiscal year 1987 budget hearings with testimony from Peter McPherson, the Administrator of the Agency

for International Development, in support of the programs under the jurisdiction of the Agency.

Peter, you and your colleagues are welcome here today. Before we begin, I want to say that I greatly appreciate your cooperation and your help. I was just with a member of your group in Wisconsin this weekend, and I appreciate the work and the relationship we have been able to establish between the subcommittee and AID. We have enjoyed working with you. I assume that we are going to continue to be able to work in a very businesslike manner between the subcommittee and the Agency.

As you know, Peter, your entire statement, as well as the statements that have been submitted by the Assistant Administrators and office heads, will be included in the record, and we would ask that you summarize your statement. Then, depending on how you choose to organize your staff, we would spend most of the time, hopefully, on questions.

Unfortunately, we have a meeting of the Appropriations Committee, which Chairman Hatfield called for 3:30, so we are hoping that we will be able to work through our statements and questions, and deal with the wrap-up, hopefully, by then.

Before we begin, Senator Inouye, do you have a statement that you would like to make at this time?

Senator INOUYE. It is always good to have Mr. McPherson with us. Welcome, sir.

Mr. MCPHERSON. Thank you, sir.

PREPARED STATEMENT

Senator KASTEN. We alsc have a prepared statement from Senator Leahy which he asks be included in the record. It will be inserted at this point.

[The statement follows:]

PREPARED STATEMENT OF HON. PATRICK LEAHY

U.S. SENATOR FROM VERMONT

Mr. McPherson, today 20 million Americans live in poverty.

Eighty percent of American high school graduates can't write clearly.

Thirty-five million Americans have no health insurance.

At a time when we are being asked to cut vital domestic programs in nutrition, education, and health, you are requesting $7.26 billion in foreign economic assistance for 1987.

I am not opposed to foreign aid.

The Marshall plan, one of the most massive foreign aid programs in history, stands out as one of this country's finest accomplishments.

Our huge contribution in food and medical aid for starving Africans last year is another example of where our foreign aid programs saved millions of lives.

I believe we have a moral responsibility to help relieve the suffering of millions of people overseas who are hungry, illiterate, and dying of diseases we know how to cure. By doing so we not only make life better for people. We help to limit the risk of violence in the world, which so often results from poverty. And we strengthen our own economy. Forty percent of our exports go to developing countries.

These are reasons why I have supported our foreign aid programs in the past.

But too often I have been disappointed by the results.

Each year we are reminded of the importance of achieving self-sustaining development in the underdeveloped countries, a goal we all share. But many of these countries don't seem any closer to that goal today than they were 12 years ago when I first came to the Senate. Indeed, economic growth and domestic food production have fallen in some of the poorest countries during that period, notwithstanding millions of dollars in economic aid from us.

Why has this occurred?

Will the same be said 12 years from today?

No wonder so many Americans feel that we should stop spending our money on foreign aid.

Seventy percent of the people who are born in the next decade will be born in the developing countries—countries like Bolivia, Haiti, and Sudan—where today millions live in desperate poverty. Achieving self-sustaining development in countries like these is a monumental task which dwarfs our own foreign aid budget.

Many of the poorest countries lack the political leadership, not to mention the resources, to meet this challenge.

Our aid programs need to be realistic, to have realistic goals. They need to be solutions, not problems.

Foreign aid must be judged by results, not by intentions.

Since 1980, our foreign economic assistance budget has increased 44 percent. We can not continue to expand these programs just because it seems like a good idea. They need to be successful.

Our goal must be to use our limited resources where they will count the most. It seems to me that until these countries can grow enough food for their own people, until they can meet their most basic needs, sustained development will remain just a good idea. Most of my questions today have to do with how successful we have been at helping developing countries meet their basic needs.

OPENING STATEMENT OF MR. McPHERSON

Senator KASTEN. We ask that you proceed with your statement, and the statements of the people who are with you.

Mr. MCPHERSON. Thank you, Senator.

It is really a pleasure to be here today. As you indicated, the subcommittee and AID have a particularly productive relationship. We appreciate the support that you have given us at really critical times. Several times, over the years, we have had some real problems, and you have been very helpful and supportive. We hope that we have been responsive to your directions as well.

Let me make just a couple of comments, and then rather than have the individual Assistant Administrators make a statement, why don't we just move into questions.

I am going to ask them to participate extensively in responding to questions so that will, in effect, take the place of any statement that they might make.

Let me say, first of all, that we are intrigued by the legislation which you and Senator Kennedy have introduced dealing with Africa. The legislation proposes a fair amount of flexibility, additional flexibility for us in managing these programs. We think that it identifies a whole range of issues and problems in which the Africans need assistance. It looks to the Africans to carry a significant share of the burden in the development of their countries and their continent, and we think that this is very positive.

I would like to also make a comment or two about the private sector. This is an area in which we have worked hard and long, on how to best mobilize the private sector in developing countries, and it has not been easy. Frankly, initially, we began to think in terms of giving substantial amounts of loans or grants to the private sector to do various work, and some of that certainly is appropriate. But as time has gone on, I have concluded, really quite positively, that the most important thing that we can do for the development of the private sector in the Third World is to improve the policy climate in these countries so that the private sector can work.

Training, credit, education, and physical infrastructure can facilitate the private sector, but in the end probably the most important thing that we can do is to get the countries to adopt policies that really help the private sector.

Also, I think that it is important for us to continue to find ways to work outside of governmental structures to do the things that we do. We never can, and probably never should, work exclusively outside of government. But so much of what traditionally has been thought to be governmental in nature, can be well done by the private sector in the Third World.

Mr. Chairman, let me just conclude my comments, and this will allow lots of time to comment on a variety of areas of the budget request.

[The prepared statements of Mr. McPherson and accompanying staff follow:]

PREPARED STATEMENT OF M. PETER MCPHERSON
ADMINISTRATOR
AGENCY FOR INTERNATIONAL DEVELOPMENT

MR. CHAIRMAN, I AM VERY PLEASED TO APPEAR AGAIN BEFORE THE SENATE APPROPRIATIONS COMMITTEE TO DISCUSS THE ADMINISTRATION'S FY 1987 PROPOSED PROGRAM IN FOREIGN ECONOMIC ASSISTANCE. WE WELCOME THIS OPPORTUNITY TO PRESENT THE PROGRAM OF DEVELOPMENT AND ECONOMIC AID TO THIS COMMITTEE WHICH HAS TAKEN SUCH A KEEN INTEREST IN OUR ASSISTANCE EFFORTS THROUGHOUT THE WORLD.

THE BUDGET THAT WE ARE SUBMITTING THIS YEAR HAS BEEN PREPARED WITHIN THE CONTEXT OF THE GRAMM-RUDMAN-HOLLINGS LEGISLATION AND THE EFFORT BY THE CONGRESS AND THE ADMINISTRATION TO ADDRESS EFFECTIVELY THE DEFICIT PROBLEMS WHICH FACE THIS COUNTRY. A STRONG U.S. ECONOMY IS ESSENTIAL TO ECONOMIC PROGRESS THROUGHOUT THE DEVELOPING WORLD. OUR REQUEST, AS PART OF THE PRESIDENT'S BUDGET, IS CONSISTENT WITH THE PLAN THAT THE FEDERAL DEFICIT SHALL NOT EXCEED $144 BILLION IN FY 1987. THE DEVELOPMENT ASSISTANCE PART OF OUR REQUEST, AT $2.1 BILLION, IS A 4 PERCENT INCREASE OVER THE FY 1986 POST-SEQUESTRATION LEVEL UNDER GRAMM-RUDMAN-HOLLINGS, BUT 1 PERCENT BELOW THE FY 1986 REQUEST LEVEL, AND APPROXIMATELY 13 PERCENT BELOW THE FY 1985 LEVEL. FOR PL 480, AN IMPORTANT PART OF THE DEVELOPMENT EFFORT, LEVELS IN THE PRESIDENT'S BUDGET ARE BELOW THOSE IN FY 1986 BUT WE EXPECT TO BE ABLE TO SHIP APPROXIMATELY THE SAME AMOUNT OF FOOD AS CONTAINED IN OUR FY 1986 REQUEST. THE ESF LEVEL OF $4.1 BILLION REPRESENTS AN INCREASE OVER FY 1986 POST-SEQUESTRATION LEVELS TO HELP PROVIDE NEEDED ASSISTANCE TO COUNTRIES IN CENTRAL AMERICA AND AFRICA WHICH WERE REDUCED AS A CONSEQUENCE OF REDUCED APPROPRIATIONS, EARMARKS FOR OTHER COUNTRIES AND GRAMM-RUDMAN-HOLLINGS SEQUESTRATION IN FY 1986.

THE ECONOMIC ASSISTANCE PROPOSAL WE HAVE SUBMITTED IS

CAREFULLY STRUCTURED. IT WAS DEVELOPED WITH FULL RECOGNITION OF THE IMPORTANT AND DIFFICULT CHALLENGES WHICH THIS COUNTRY FACES IN GETTING ITS ECONOMIC HOUSE IN ORDER. WE BELIEVE THE PROGRAM WE ARE SUBMITTING IS CONSISTENT WITH OUR BEST NATIONAL INTERESTS -- IN POLITICAL, ECONOMIC AND HUMANITARIAN TERMS.

WE HAVE BROUGHT ABOUT CHANGES IN THE AID PROGRAM THROUGH A GREATER EMPHASIS UPON THE USE OF MARKET FORCES AND THE PRIVATE SECTOR, THROUGH A STRONG DEDICATION TO POLICY REFORM, THROUGH INCREASED ATTENTION TO TECHNOLOGY TRANSFER AND THROUGH A HEIGHTENED AWARENESS OF INSTITUTIONAL DEVELOPMENT -- FOUR PILLARS OF CHANGE -- WHICH HAVE IMPROVED AMERICA'S EFFORT IN THE TASK OF HELPING COUNTRIES MEET BASIC HUMAN NEEDS AND ACHIEVE GROWTH THAT IS SELF-SUSTAINING AND EQUITABLE. IN ADDITION, DURING THE PAST YEAR, WE FINALIZED AND PUBLISHED OUR FIRST STRATEGIC PLAN WHICH FOCUSES THE AGENCY ATTENTION ON THE FOLLOWING DEVELOPMENT PROBLEMS: INADEQUATE INCOME GROWTH; HUNGER; HEALTH DEFICIENCIES, ESPECIALLY INFANT AND CHILD MORTALITY; ILLITERACY AND LACK OF EDUCATION; AND UNMANAGEABLE POPULATION PRESSURES. THIS COUNTRY CAN BE PROUD OF ITS IMPORTANT ROLE IN DEVELOPMENT EFFORTS. IT IS SOMETHING UNPARALLELED IN HISTORY. THE ASSISTANCE WE ARE PROVIDING IS AFFECTING MILLIONS OF LIVES THROUGHOUT THE WORLD.

A STRONG JUSTIFICATION IS REQUIRED FOR A SUBSTANTIAL FOREIGN ASSISTANCE PROGRAM THIS YEAR, PARTICULARLY IN THE FACE OF CUTBACKS THAT WILL TAKE PLACE IN OTHER AREAS. WE ARE FULLY PREPARED TO MAKE THAT JUSTIFICATION. WE BELIEVE THAT WHAT WE ARE SUBMITTING IS A MINIMUM PROGRAM. THE UNITED STATES CONTINUES TO BE FACED WITH DIFFICULT CHALLENGES THROUGHOUT THE WORLD AND THE ECONOMIC ASSISTANCE PROGRAM IS A CRITICAL PART OF AMERICA'S RESPONSE TO THOSE CHALLENGES.

THE PROGRAM LEVELS THAT WE ARE PROPOSING WERE CAREFULLY DEVELOPED AS PART OF AN INTEGRATED BUDGET PROCESS WORKING WITH THE STATE DEPARTMENT AND OTHER AGENCIES. WE HAVE CUT BACK AND STREAMLINED. IN FACT ONE OF THE MAJOR THEMES I HAVE EMPHASIZED

DURING MY TENURE AS ADMINISTRATOR OF THIS AGENCY IS THE NEED TO FIND WAYS OF CARRYING OUT OUR BUSINESS MORE EFFICIENTLY. WE HAVE EMPHASIZED IMPORTANT CONTRIBUTIONS THAT CAN BE MADE IN TECHNICAL AREAS TO BRING ABOUT FUNDAMENTAL CHANGE IN THE ECONOMIES AND INSTITUTIONS OF MANY OF THE DEVELOPING COUNTRIES. IN MANY COUNTRIES, HOWEVER, THE ECONOMIC SITUATION IS SUCH THAT BALANCE OF PAYMENTS ASSISTANCE THROUGH COMMODITY IMPORT PROGRAMS AND OTHER NON-PROJECT ASSISTANCE PROGRAMS IS ESSENTIAL TO HELP STABILIZE ECONOMIES WHILE STRUCTURAL REFORMS ARE TAKING PLACE. A LASTING IMPACT ON BASIC HUMAN NEEDS OF POOR PEOPLE IN DEVELOPING COUNTRIES CANNOT BE ACHIEVED IF THEIR ECONOMIES RETROGRESS.

WE HAVE EMPHASIZED IN OUR REQUEST THE MAJOR FOREIGN POLICY PRIORITIES OF THIS ADMINISTRATION. THE MIDDLE EAST PEACE PROCESS CONTINUES TO BE AN ESSENTIAL AND CRITICAL PART OF OUR GOVERNMENT'S FOREIGN POLICY AND A SUBSTANTIAL AMOUNT OF THE ECONOMIC AID REQUEST IS DIRECTED TOWARD THAT OBJECTIVE. WE ARE PROVIDING STRONG SUPPORT TO EFFORTS IN CENTRAL AMERICA TO STRENGTHEN DEMOCRACY AND ESTABLISH HEALTHY ECONOMIES AND PEACEFUL SOCIETIES. WE ARE SUPPORTING THE EMERGING DEMOCRACIES OF SOUTH AMERICA. ASSISTANCE IS ALSO DIRECTED TO COUNTRIES OF STRATEGIC IMPORTANCE TO THE UNITED STATES IN THE PERSIAN GULF AND SOUTHEAST ASIA. AND WE CONTINUE TO PROVIDE STRONG SUPPORT TO THOSE PORTIONS OF THE GLOBE WHERE BASIC HUMAN NEEDS ARE GREATEST -- IN AFRICA AND SOUTH ASIA.

THIS ADMINISTRATION HAS GIVEN GREATLY INCREASED ATTENTION TO MARKET FORCES AND THE PRIVATE SECTOR. WE HAVE ESTABLISHED A PRIVATE ENTERPRISE BUREAU, AND IN OUR REQUEST WE HAVE INCREASED FUNDS FOR THAT BUREAU. WE ARE REQUESTING FUNDING FOR THE REVOLVING LOAN FUND TO BRING IT TO THE FULL AUTHORIZED LEVEL. BUT, OF COURSE, OUR PRIVATE SECTOR INITIATIVE IS MORE THAN JUST FINANCING THE PROGRAMS OF ONE SPECIALIZED BUREAU; IT INVOLVES A STRONG EMPHASIS UPON PRIVATE ENTERPRISE IN OUR TOTAL PROGRAM.

IN MANY COUNTRIES WE HAVE SEEN PROGRESS TOWARD GREATER

PRIVATIZATION WITH INCREASED EMPHASIS UPON THE MARKETPLACE. IN FACT, PRIVATIZATION OF GOVERNMENT SERVICES IS A GROWING THEME IN THE DEVELOPING WORLD. LAST YEAR THE ASIAN DEVELOPMENT BANK HELD A CONFERENCE ON PRIVATIZATION. IN MAY, THE AFRICAN DEVELOPMENT BANK WILL DO THE SAME. AND EARLIER THIS MONTH, AID SPONSORED ITS OWN INTERNATIONAL CONFERENCE ON PRIVATIZATION WHERE OVER 500 PARTICIPANTS DISCUSSED MANY TECHNIQUES OF TRANSFERRING ECONOMIC POWER FROM THE STATE TO THE PEOPLE, WHILE IMPROVING ECONOMIC PRODUCTIVITY AT THE SAME TIME. AID CURRENTLY IS HELPING RECIPIENT COUNTRIES DESIGN PRIVATIZATION PROGRAMS AND WILL INCREASE OUR ASSISTANCE IN THIS AREA DURING 1986 AND 1987.

IN BANGLADESH THE EFFORTS THAT WE HAVE MADE HAVE LED TO A MUCH GREATER INVOLVEMENT OF PRIVATE ENTERPRISE IN THE AGRICULTURE AREA. A KEY ELEMENT HAS BEEN THE INCREASED RELIANCE UPON THE PRIVATE SECTOR IN DISTRIBUTION OF FERTILIZER TO THE FARMERS.

WE ALSO HAVE MADE A CONCERTED EFFORT TO ENCOURAGE PRIVATE ENTERPRISE DEVELOPMENT IN EGYPT THROUGH PROJECTS PROVIDING CREDIT TO BUSINESSES FOR START-UP AND IMPROVEMENT OF FACILITIES. THE FIRST USE OF FUND RESOURCES WAS A $5 MILLION LOAN TO GENERAL MOTORS EGYPT FOR CONSTRUCTION, EQUIPMENT AND TECHNICAL SERVICES NEEDED TO MANUFACTURE LIGHT AND MEDIUM-DUTY TRUCKS AND BUSES. LOCAL BANKS CO-FINANCED A LOCAL CURRENCY LOAN OF $30 MILLION. WHEN THE PLANT REACHES FULL PRODUCTION CAPACITY, IT WILL PRODUCE 18,000 VEHICLES PER YEAR AND EMPLOY 1,400 EGYPTIANS IN MANAGEMENT, TECHNICAL, AND BLUE-COLLAR JOBS.

AS PART OF OUR PRIVATIZATION EFFORTS WE HAVE GIVEN A GREAT DEAL OF ATTENTION TO ENCOURAGING RECIPIENT COUNTRY GOVERNMENTS TO MOVE AWAY FROM RELIANCE ON PARASTATALS AND TO GIVE A GREATER ROLE TO THE PRIVATE SECTOR. ONE SUCH EXAMPLE IS IN COSTA RICA, WHERE AID IS ASSISTING THE GOVERNMENT TO DIVEST THE ASSETS OF CODESA, THE COSTA RICA PARASTATAL HOLDING COMPANY. THE HOLDING

COMPANY, WITH EIGHTEEN SUBSIDIARIES RUNNING HUGE LOSSES WITH THE CENTRAL BANK, REACHED A POINT WHERE IT WAS DRAINING ONE-THIRD OF COSTA RICA'S PUBLIC SECTOR CREDIT, WHILE GENERATING LESS THAN ONE AND ONE-HALF PER CENT OF GNP, AND LESS THAN ONE-HALF OF THE COUNTRY'S EMPLOYMENT. THE PRIVATIZATION PROCESS OF CODESA WAS BEGUN UNDER PRESIDENT MONGE, COMPLETE WITH LEGISLATION AND A BIPARTISAN NATIONAL COMMISSION ESTABLISHED TO PUT THE CODESA COMPANIES UP FOR PUBLIC BID. THE PROCESS IS FULLY UNDERWAY, WITH A GROUP OF PRIVATE BUYERS NOW BEING IDENTIFIED TO PURCHASE THE LARGEST COMPANY, THE ALUMINUM COMPANY, WITHIN APPROXIMATELY NINETY DAYS. WE ARE CONFIDENT THAT THIS IS MERELY THE BEGINNING OF THE ENTIRE DIVESTITURE AND WE EXPECT THE BULK OF CODESA'S ASSETS TO BE PRIVATIZED OR LIQUIDATED BY THE END OF THIS YEAR.

THE EMPHASIS ON THE PRIVATE SECTOR IS CLOSELY RELATED TO THE QUESTION OF POLICY REFORM. THIS ADMINISTRATION HAS STRESSED THE IMPORTANCE OF POLICIES WHICH ARE CONSISTENT WITH ECONOMIC PROGRESS. THE POLICY CLIMATE MUST BE SUCH THAT MARKET FORCES CAN EFFECTIVELY INTERACT -- THAT THERE IS AN INCREASING RELIANCE ON THE INDIGENOUS PRIVATE SECTOR AND ON FOREIGN INVESTMENT. GREAT STRIDES HAVE BEEN MADE IN THIS AREA. WE, OF COURSE, WORK WITH OTHER DONORS AND WITH THE MULTILATERAL INSTITUTIONS AS APPROPRIATE. THE CONCEPT OF POLICY REFORM HAS GROWN THROUGH THE PAST FEW YEARS SO THAT IT IS FULLY ACCEPTED WITHIN THE INTERNATIONAL DEVELOPMENT COMMUNITY WHEREAS IN THE PAST, IT WAS A MUCH MORE ISOLATED PHENOMENON. I THINK THIS IS REAL PROGRESS THAT WE CAN REPORT TO THIS COMMITTEE AND TO THE AMERICAN PEOPLE.

AS A PART OF OUR EMPHASIS ON POLICY REFORM, WE HAVE IN OUR ESF REQUEST $75 MILLION FOR A CONTINUATION OF THE ECONOMIC POLICY REFORM PROGRAM IN AFRICA, WHICH IS DESIGNED TO HELP BRING ABOUT POLICY CHANGES. SOME SPECIFIC EXAMPLES ARE OUR PROGRAM IN SUPPORT OF AGRICULTURAL MARKETING LIBERALIZATION IN

ZAMBIA, WHICH IS ALLOWING PRIVATE TRADERS TO PARTICIPATE IN MAIZE MARKETING ON A BROAD SCALE AND WHICH, COUPLED WITH RECENT INCREASES IN PRODUCER PRICES, WILL HELP MOVE ZAMBIA FROM BEING A MAIZE IMPORTER TO SELF-SUFFICIENCY. ANOTHER EXAMPLE IS IN MALAWI, WHERE AS PART OF A MULTI-DONOR EFFORT IN STRUCTURAL ADJUSTMENT, WE ARE SUPPORTING THE REMOVAL OF FERTILIZER SUBSIDIES WHILE SIMULTANEOUSLY SHIFTING TO MORE COST-EFFICIENT, CONCENTRATED FERTILIZERS SO THAT AGRICULTURAL PRODUCTION DOES NOT DECLINE. AND IN COSTA RICA, OUR POLICY DIALOGUE HAS SUPPORTED A MAJOR TURNAROUND IN THAT COUNTRY'S ECONOMIC POLICIES. THE GOVERNMENT BUDGET DEFICIT HAS BEEN REDUCED FROM 14 PERCENT OF GROSS DOMESTIC PRODUCT TO 1.5 PERCENT, WHILE A MORE FAVORABLE EXCHANGE RATE SYSTEM HAS SHARPLY INCREASED INCENTIVES FOR EXPORTS. AS A RESULT, EXPORTS TO THE U.S. OF NON-TRADITIONAL PRODUCTS INCREASED FROM $114 MILLION IN 1983 TO AN ESTIMATED $172 MILLION IN 1985.

WE ARE ALSO USING OUR PL 480 RESOURCES TO PROVIDE LEVERAGE FOR OUR POLICY DIALOGUE EFFORTS. IN TUNISIA, THE MISSION HAS ENCOURAGED THE DISTRIBUTION OF FERTILIZERS BY PRIVATE AGRICULTURAL INPUT DEALERS. TRADITIONALLY, FERTILIZER WAS SOLD BY INEFFICIENT PARASTATALS, WITH LITTLE PRIVATE SECTOR INVOLVEMENT DUE TO THE NARROW MARGIN ON SALES. AS A RESULT OF SUCCESSFUL DIALOGUE IN CONJUNCTION WITH A PL 480 TITLE I SELF-HELP AGREEMENT, THE TUNISIAN GOVERNMENT INCREASED THE SALES MARGIN ON FERTILIZERS SO THAT BY 1984 THERE WERE SOME 168 PRIVATE ENTERPRISES INVOLVED. RECENT INCREASES IN AGRICULTURE PRODUCTION, INCLUDING THE 1984-85 RECORD CEREALS HARVESTS, CAN BE DIRECTLY TRACED TO FARMERS NOW HAVING FERTILIZER ON TIME.

<u>TECHNOLOGICAL TRANSFER</u> IS ALSO AN AREA WHICH THIS ADMINISTRATION HAS STRONGLY EMPHASIZED. I AM PERSONALLY COMMITTED TO EMPHASIZING BIO-MEDICAL RESEARCH TO BRING ABOUT SCIENTIFIC BREAKTHROUGHS IN THE FIELD OF HEALTH. SIMPLE TECHNIQUES SUCH AS ORAL REHYDRATION THERAPY ("ORT") CAN HAVE A

TREMENDOUS IMPACT ON CHILD SURVIVAL. WE ARE MAKING BREAKTHROUGHS IN THE DEVELOPMENT OF A MALARIA VACCINE AND IN THE DEVELOPMENT OF OTHER NEW AND IMPROVED VACCINES AND TECHNOLOGIES FOR DELIVERING IMMUNIZATIONS.

WE CONTINUE STRONG SUPPORT FOR AGRICULTURE RESEARCH EFFORTS THROUGH THE INTERNATIONAL RESEARCH INSTITUTIONS. THERE ARE PARTICULARLY PRESSING NEEDS IN AFRICA, WHERE FOOD PRODUCTION MUST BE INCREASED TO PREVENT THE TYPE OF DISASTROUS AND TRAGIC FAMINE CONDITIONS THAT WE WITNESSED OVER THE PAST TWO YEARS.

AID CONTINUES TO SUPPORT OPERATIONAL RESEARCH TO TEST ALTERNATIVE MEANS OF DELIVERING PROVEN, EFFECTIVE CHILD SURVIVAL INTERVENTIONS SUCH AS ORT, IMMUNIZATION, CHILD SPACING AND BREASTFEEDING PROMOTION. WE HAVE DOCUMENTED DRAMATIC CHANGES IN HEALTH PRACTICES AND OUTCOMES AS A RESULT OF EFFECTIVE APPLICATION OF FAMILIAR ADVERTISING TECHNIQUES AND OTHER MODERN COMMUNICATION PRACTICES.

FINALLY, WE ARE PROVIDING STRONG SUPPORT TO INSTITUTIONAL DEVELOPMENT. IN ONE SENSE THIS IS NOT NEW, BECAUSE DEVELOPMENT OF INSTITUTIONS HAS BEEN A KEY PART OF THE AID PROGRAM SINCE ITS BEGINNING. AMERICAN UNIVERSITIES HAVE PLAYED A CRITICAL ROLE AS HAVE THE PRIVATE VOLUNTARY ORGANIZATIONS. WE HAVE MANY EXAMPLES OF INSTITUTIONS DEVELOPED BY AMERICAN ASSISTANCE THROUGH THE JOINT EFFORTS OF HOST COUNTRIES AND AMERICAN COUNTERPARTS, AS FOR EXAMPLE, THE INDIAN INSTITUTES OF TECHNOLOGY. IN RECENT YEARS WE CAN POINT TO THE DEVELOPMENT OF MORE EFFECTIVE NATIONAL AGRICULTURE RESEARCH EFFORTS IN SUCH AFRICAN COUNTRIES AS CAMEROON, KENYA, AND MALAWI.

WE CAN POINT TO MANY OTHER CASES OF SUCCESSFUL INSTITUTIONAL DEVELOPMENT EFFORTS IN WHICH WE HAVE PLAYED A KEY ROLE. FOR EXAMPLE, IN EL SALVADOR, WE HAVE SUPPORTED FUSADES -- A NON-PROFIT DEVELOPMENT ORGANIZATION, PROVIDING NON-PARTISAN SOLUTIONS TO EL SALVADOR'S ECONOMIC AND SOCIAL

PROBLEMS. FUSADES HAS BEEN INSTRUMENTAL IN SUPPORTING TRADE AND INVESTMENT PROMOTION THROUGH A TRADE AND INVESTMENT PROMOTION SERVICE THAT PROMOTES PRIVATE INVESTMENT IN PRODUCTION OF NON-TRADITIONAL EXPORTS, SUPPLYING TECHNICAL ASSISTANCE AND MARKET ACCESS INFORMATION; AN AGRICULTURAL DIVERSIFICATION PROGRAM; A PROGRAM AIMED AT ENHANCING PRIVATE SECTOR ORGANIZATIONS' EFFECTIVENESS; AND SMALL BUSINESS DEVELOPMENT PROGRAM SUPPLYING CREDIT, TRAINING AND TECHNICAL ASSISTANCE.

ALONG WITH THESE BASIC MEANS, OR PILLARS, OF ASSISTANCE WHICH THIS ADMINISTRATION HAS EMPHASIZED, WE HAVE STRIVED FOR MOR' EFFECTIVE ADMINISTRATION OF THE PROGRAM THROUGH:

o GREATER DECENTRALIZATION TO THE FIELD COUPLED WITH MORE EFFECTIVE MANAGEMENT OVERSIGHT PROCEDURES TO MONITOR PERFORMANCE. THE DEPUTY ADMINISTRATOR HAS BEEN CHARGED WITH AN EFFORT TO BRING ABOUT MUCH GREATER DELEGATION OF AUTHORITY TO THE FIELD MISSIONS. THIS PROCESS IS CONTINUING.

o TRIMMING DOWN OF MISSIONS WHERE POSSIBLE AND IN SOME CASES TRANSFORMING PROGRAMS FROM COMPREHENSIVE APPROACHES TO A SINGLE FOCUS, SUCH AS PARTICIPANT TRAINING, WHICH MAKES FOR GREATER EASE IN ADMINISTRATION.

o STREAMLINING OF THE AGENCY'S PLANNING PROCESS.

THESE ARE SOME OF THE MEANS BY WHICH WE HAVE ATTEMPTED TO BRING ABOUT FUNDAMENTAL CHANGES IN OUR AID PROGRAM, AND I THINK WE HAVE HAD A CONSIDERABLE MEASURE OF SUCCESS.

THE NEED FOR THIS PROPOSED FY 1987 ECONOMIC ASSISTANCE PROGRAM IS EVIDENT -- BOTH IN TERMS OF BASIC ELEMENTS OF SELF-INTEREST AND U.S FOREIGN POLICY OBJECTIVES AND ALSO IN TERMS OF THE CONDITIONS OF POVERTY AND THE NEED FOR CHANGE IN SO MANY COUNTRIES. THE WORLD BANK HAS ESTIMATED THAT THERE ARE 1 BILLION PEOPLE LIVING IN ABSOLUTE POVERTY, "A CONDITION OF LIFE SO CHARACTERIZED BY MALNUTRITION, ILLITERACY AND DISEASE TO BE BENEATH ANY REASONABLE DEFINITION OF HUMAN DECENCY."

THAT IS FUNDAMENTALLY AT THE CORE OF WHAT THIS COUNTRY IS ATTEMPTING TO ATTACK THROUGH OUR ECONOMIC ASSISTANCE EFFORTS.

SOME OF THE KEY FUNCTIONAL AREAS THAT WE HAVE EMPHASIZED ARE THOSE THAT THIS COMMITTEE HAS GIVEN PARTICULAR ATTENTION TO.

ONE IS HEALTH AND CHILD SURVIVAL, WHICH IS A VERY HIGH PRIORITY WITHIN THIS AGENCY. IN FY 1986 WE RECEIVED $50 MILLION FROM THE CONGRESS, AND WE HAVE MADE A TENTATIVE ALLOCATION OF THOSE FUNDS TO VARIOUS COUNTRIES AND CENTRAL PROGRAMS. MANY OF OUR PREVIOUSLY INITIATED HEALTH PROGRAMS ALSO INCLUDE CHILD SURVIVAL COMPONENTS AND WE EXPECT THAT THERE WILL BE CONSIDERABLY MORE FUNDING FOR CHILD SURVIVAL ACTIVITIES IN FY 1987. WE HAVE A SPECIFIC REQUEST FOR $25 MILLION IN THE BUDGET, BUT THAT WILL ONLY BE A PORTION OF OUR TOTAL RESPONSE. CHILD SURVIVAL ACTIVITIES WILL BE FUNDED FROM THE HEALTH, CHILD SURVIVAL, AND SAHEL ACCOUNTS, AND FROM PL 480 LOCAL CURRENCY AND ESF FUNDS.

ORT AND IMMUNIZATION ARE THE TWO THE MOST IMPORTANT INTERVENTIONS FOR CHILD SURVIVAL. THEY ARE THE TWIN ENGINES THAT CAN SAVE LIVES AND HELP BUILD A DELIVERY SYSTEM FOR OTHER HEALTH EFFORTS. A GREAT DEAL HAS BEEN SAID ABOUT IMMUNIZATION LATELY AND APPROPRIATELY SO. HOWEVER, WE SHOULD KEEP IN MIND THAT ORT CAN SAVE AS MANY IF NOT MORE LIVES. THESE "TWIN ENGINES" AS JIM GRANT AND I HAVE BEEN CALLING THEM SHOULD INDEED GO TOGETHER. AT THE ICORT CONFERENCE IN DECEMBER, I PROPOSED THAT BY 1990 TWO MILLION CHILDREN COULD BE SAVED FROM DEATH FROM DEHYDRATION BY THE USE OF ORT. AID IS ALSO PLEDGED TO COLLABORATE IN AN INTERNATIONAL EFFORT TO PROVIDE IMMUNIZATIONS FOR ALL THE WORLD'S CHILDREN, WITH SPECIFIC COVERAGE GOALS TO BE DEFINED AT THE COUNTRY LEVELS. THE DIMENSIONS OF THE TASK ARE MONUMENTAL -- 15 MILLION CHILDREN DIE EACH YEAR IN A.I.D. ASSISTED COUNTRIES AND ABOUT HALF OF THESE DEATHS ARE PREVENTABLE THROUGH ORT AND IMMUNIZATION.

THROUGH CAREFUL COORDINATION AMONG DONORS TO CONSERVE AVAILABLE RESOURCES FOR CHILD SURVIVAL, AND THROUGH EFFECTIVE PROGRAMMING OF THESE FUNDS, WE EXPECT TO BE ABLE TO ACHIEVE THESE AMBITIOUS GOALS. WE ARE CURRENTLY DEVELOPING A LONG-TERM CHILD SURVIVAL STRATEGY FOR THE AGENCY TO GUIDE ALLOCATION AND PROGRAMMING DECISIONS IN THIS AREA.

ANOTHER VERY IMPORTANT PRIORITY IS THE AREA OF AGRICULTURE. INCREASED FOOD PRODUCTION CONTINUES TO BE A CRITICAL PRIORITY. IT IS ESSENTIAL TO CONTINUE AGRICULTURE RESEARCH. IT IS IMPORTANT TO CARRY OUT POLICY CHANGES AND TO PROVIDE TECHNICAL ASSISTANCE IN AGRICULTURE WHICH WILL BRING ABOUT FUNDAMENTAL CHANGE. THE NEEDS IN AFRICA FOR INCREASED FOOD PRODUCTION ARE PARAMOUNT, BUT AGRICULTURAL PRODUCTIVITY AND DISTRIBUTION MUST BE IMPROVED THROUGHOUT MOST OF THE DEVELOPING WORLD IN ORDER TO IMPROVE NUTRITION AND ENSURE THE AVAILABILITY OF ESSENTIAL FOODS FOR A STILL RAPIDLY GROWING POPULATION. WE HAVE INCLUDED IN OUR BUDGET ADDITIONAL FUNDS IN AGRICULTURE BEYOND WHAT WE RECEIVED IN FY 1986. AFRICA WILL RECEIVE APPROXIMATELY 20 PERCENT OF THE PROPOSED FY 1987 AGRICULTURE BUDGET REQUEST.

WE PLAN TO CONTINUE TO EMPHASIZE TECHNICAL ASSISTANCE IN AGRICULTURE, ONE OF OUR AREAS OF COMPARATIVE ADVANTAGE IN DEVELOPMENT ASSISTANCE WHERE WE HAVE HAD PARTICULAR SUCCESS IN THE PAST. FOR EXAMPLE, AS A RESULT OF OUR ASSISTANCE, THE NATIONAL CEREALS RESEARCH AND EXTENSION PROJECT IN CAMEROON IS DEVELOPING AN INSTITUTIONAL CAPACITY THAT WILL PROVIDE HIGH-QUALITY RESEARCH ON MAIZE, RICE, SORGHUM AND MILLET FOR USE BY SMALL FARMERS. ANOTHER EXAMPLE IS THE REGIONAL STRENGTHENING AFRICAN AGRICULTURAL RESEARCH PROJECT, THROUGH WHICH WE ARE PARTICIPATING WITH OTHER DONOR NATIONS IN MAJOR INITIATIVES TO REORIENT AND STRENGTHEN NATIONAL AND REGIONAL RESEARCH INSTITUTIONS WHICH HAVE THE POTENTIAL TO HELP INCREASE SMALLHOLDER PRODUCTIVITY. THIS LONG-TERM PROGRAM, IN

COLLABORATION WITH INTERNATIONAL AGRICULTURAL RESEARCH CENTERS, IS SUPPORTING FARMING SYSTEMS RESEARCH, STRENGTHENING RESEARCH LINKAGES TO EXTENSION, PROVIDING TECHNICAL AND ADMINISTRATIVE TRAINING, AND HELPING ESTABLISH REGIONAL NETWORKS OF SCIENTISTS TO SPREAD RESEARCH RESULTS AMONG SUB-SAHARAN AFRICAN COUNTRIES.

FAMILY PLANNING IS ALSO AN AREA OF HIGH PRIORITY AREA IN OUR ASSISTANCE PROGRAM. SUPPORT FOR VOLUNTARY FAMILY PLANNING EFFORTS CONTINUES TO RECEIVE CONSIDERABLE ATTENTION IN AID. THE DEMAND FOR FAMILY PLANNING SERVICES HAS INCREASED AS MODERNIZATION HAS MADE SMALLER FAMILIES MORE DESIRABLE FOR A GREAT MANY COUPLES IN MOST DEVELOPING COUNTRIES. AN INCREASING NUMBER OF COUNTRIES HAVE BECOME CONCERNED ABOUT THEIR ABILITY TO FEED, EDUCATE AND PRODUCTIVELY EMPLOY GROWING NUMBERS OF PEOPLE AS A RESULT OF HIGH POPULATION GROWTH RATES, IN SOME AREAS AS HIGH AS 4 PERCENT. THE RATIONALE OF AID POPULATION ASSISTANCE IS NOT TO REDUCE POPULATION GROWTH RATES PER SE, BUT BECAUSE FAMILY PLANNING SERVICES ALLOW CHOICES WHICH DIRECTLY BENEFIT INDIVIDUAL FAMILIES IN A NUMBER OF WAYS.

ONE IMPORTANT REASON FOR OUR CONTINUED COMMITMENT TO FAMILY PLANNING IS THAT IT ALLOWS COUPLES TO ACHIEVE THEIR OWN FAMILY DECISIONS ABOUT THE NUMBER AND SPACING OF THEIR CHILDREN. FEWER CHILDREN ARE AN OPTION WHICH AMERICAN FAMILIES TAKE FOR GRANTED. IT IS NOT AN OPTION FOR MILLIONS OF FAMILIES IN THE THIRD WORLD WHERE FAMILY PLANNING SERVICES ARE NOT AVAILABLE. TODAY IMPROVEMENTS IN HEALTH SERVICES, URBAN LIFE STYLES, AND BETTER EDUCATED MOTHERS, MEAN THAT FAMILIES EVERYWHERE WANT FEWER CHILDREN. THESE FAMILIES DESERVE THE FREEDOM TO ACHIEVE THEIR OWN FAMILY DECISIONS.

MATERNAL AND CHILD HEALTH IS A SECOND IMPORTANT REASON FOR FAMILY PLANNING. A CHILD BORN WITHIN TWO YEARS OF AN EARLIER BIRTH IS TWICE AS LIKELY TO DIE AS A CHILD BORN AFTER AN INTERVAL OF TWO OR MORE YEARS. FAMILY PLANNING SAVES LIVES AND

IS ONE OF THE FOUR PRIMARY INTERVENTIONS IN THE AGENCY'S CHILD SURVIVAL STRATEGY.

THE ADMINISTRATION IS STRONGLY OPPOSED TO THE PRACTICE OF ABORTION AS A METHOD OF FAMILY PLANNING AND AID HAS TAKEN STEPS TO ENFORCE THE POLICY OF DISSOCIATION OF U.S. FUNDS FROM ABORTION-RELATED ACTIVITIES. I BELIEVE THAT WE MUST NOT ONLY OPPOSE ABORTION BUT ALSO PROVIDE THE MEANS BY WHICH TO REDUCE THE INCIDENCE OF ABORTION. WE KNOW THAT FAMILY PLANNING IS AN ALTERNATIVE TO ABORTION AND AS SUCH IT IS IMPORTANT TO INCREASE ITS ACCESSIBILITY THROUGHOUT THE DEVELOPING WORLD AS A MEANS OF PREVENTING ABORTION.

o DETAILS OF FY 1987 REQUEST.

OUR REQUEST FOR THE FUNCTIONAL DEVELOPMENT ASSISTANCE ACCOUNTS, INCLUDING THE SAHEL, IS $1.627 BILLION. IT COMPARES TO $1.554 BILLION APPROPRIATED IN FY 1986 AFTER SEQUESTRATION. THE REQUEST, IN TOTAL, IS BELOW THE $1.754 BILLION AUTHORIZED BY THIS COMMITTEE.

o IN AGRICULTURE WE ARE REQUESTING $709 MILLION, LESS THAN THE AUTHORIZATION LEVEL OF $760 MILLION, BUT AN INCREASE FROM THE CONSIDERABLY REDUCED APPROPRIATION OF $670 MILLION IN FY 1986. AGRICULTURE REMAINS A KEY ELEMENT OF AID'S DEVELOPMENT EFFORTS WORLDWIDE, AND ANY MAJOR REDUCTION SERIOUSLY AFFECTS OUR ABILITY TO MAINTAIN EFFECTIVE AGRICULTURE RESEARCH EFFORTS AND TO PROVIDE POLICY AND TECHNICAL ASSISTANCE TO A HOST OF COUNTRIES WHERE FOOD PRODUCTION INCREASES ARE MANDATORY.

o FOR POPULATION WE ARE REQUESTING $250 MILLION, THE AMOUNT AUTHORIZED AND A STRAIGHTLINE OF FY 1986 LEVELS PRE-SEQUESTRATION. THE REQUEST REFLECTS OUR CONTINUED COMMITMENT TO THE PROVISION OF VOLUNTARY FAMILY PLANNING SERVICES.

o IN HEALTH WE ARE REQUESTING $151 MILLION, COMPARED TO AN AUTHORIZED LEVEL OF $205 MILLION. IN ADDITION, AS PART OF THE

GENERAL HEALTH EFFORT. WE ARE SPECIFICALLY REQUESTING $25 MILLION FOR CHILD SURVIVAL. THE COMBINED HEALTH AND CHILD SURVIVAL REQUEST REPRESENTS AN INCREASE OF $30 MILLION FROM THE FY 1986 REQUEST, REFLECTING THE PRIORITY WE HAVE ACCORDED TO THIS AREA. AT THE SAME TIME, THE AID BUDGET IS CLEARLY GOING TO GET ONLY SO MUCH MONEY AND OTHER ACCOUNTS, PERHAPS LESS EMOTIONALLY APPEALING THAN HEALTH, MUST BE ADDRESSED FOR REAL IMPROVEMENT OF LIVES. FOR EXAMPLE, WE MUST PROVIDE MONEY TO AGRICULTURE IN ORDER TO PRODUCE FOOD, THE ONLY PERMANENT MEANS TO ACHIEVE HEALTH.

o OUR REQUEST FOR EDUCATION AND HUMAN RESOURCES IS $179 MILLION, WHICH IS WITHIN THE AUTHORIZED LEVEL OF $180 MILLION, TO MAINTAIN OUR EMPHASIS ON EDUCATION AND TRAINING. AS PART OF THAT CONTINUING EMPHASIS, I AM PLEASED TO BE ABLE TO REPORT THAT WE ARE MAKING EXCELLENT STRIDES IN PARTICIPANT TRAINING -- WHICH IS FUNDED OUT OF SEVERAL OF THE FUNCTIONAL ACCOUNTS. WE BEGAN GIVING GREATER EMPHASIS TO PARTICIPANT TRAINING IN 1982. SINCE THEN THE NUMBER OF AID PARTICIPANTS IN TRAINING IN THIS COUNTRY HAS GROWN DRAMATICALLY. IN FY 1982, WE TRAINED ABOUT 8,000 PARTICIPANTS. BY FY 1985 THE NUMBER HAD RISEN TO MORE THAN 12,500 -- A 56 PERCENT INCREASE -- AND I EXPECT THAT TREND TO CONTINUE. I HAVE A HANDOUT, WHICH I WILL PROVIDE FOR THE RECORD, WHICH SHOWS THIS TREND OVER THE PAST SEVERAL YEARS IN THE NUMBER OF PARTICIPANTS, THEIR GEOGRAPHIC ORIGIN AND THE MAJOR SUBJECT AREAS IN WHICH TRAINING HAS BEEN PROVIDED.

o SELECTED DEVELOPMENT ACTIVITIES, AT $231 MILLION INCLUDING $14 MILLION FOR THE OFFICE OF THE SCIENCE ADVISOR, IS THE ONE AREA IN THE FUNCTIONAL ACCOUNTS WHERE OUR REQUEST EXCEEDS THE AUTHORIZED LEVEL ($207 MILLION) BECAUSE OF OUR INCREASING RELIANCE UPON DEVELOPMENT OF MARKET FORCE INSTITUTIONS. THE REDUCTION TO $166 MILLION IN FY 1986 HAS SHARPLY CURTAILED MANY PRIVATE SECTOR EMPHASES WITHIN THE AGENCY. FURTHERMORE, SINCE

ROUGHLY HALF OF THE SDA ACCOUNT IS SPENT IN LATIN AMERICA AND THE CARIBBEAN. THE 1986 REDUCTION MEANT WE HAD TO SUBSTANTIALLY ALTER OUR EMPHASES IN THESE REGIONS. YET THE SPECIFIC NEEDS IN CENTRAL AMERICA MEAN THAT THE AVAILABILITY OF FUNDS FOR SELECTED DEVELOPMENT ACTIVITIES IS ESPECIALLY IMPORTANT.

o FOR THE SAHEL DEVELOPMENT PROGRAM, WE ARE REQUESTING $80 MILLION, ESSENTIALLY THE SAME AS THE FY 1986 APPROPRIATION. WE ARE PROPOSING THAT THIS PROGRAM BE FUNDED UNDER THE FUNCTIONAL DEVELOPMENT ASSISTANCE PROGRAM.

o WE HAVE REQUESTED $10 MILLION FOR THE AMERICAN SCHOOLS AND HOSPITALS PROGRAM, THE SAME AS OUR FY 1986 REQUEST.

o WE HAVE REQUESTED $10 MILLION TO REPLENISH THE HOUSING GUARANTY RESERVES, DEPLETED AS A RESULT OF INCREASED RESCHEDULING OF OUTSTANDING LOANS. THE ADMINISTRATION PROPOSES TO TERMINATE THE HOUSING GUARANTY PROGRAM IN FY 1987 BECAUSE MARKET RATE LOANS WITH AN AID GUARANTEE HAVE NOT PROVEN TO BE APPROPRIATE FOR ALL POOR COUNTRIES AND BECAUSE HOUSING GUARANTIES ARE NOT CONSISTENT WITH FEDERAL CREDIT POLICY.

o OUR REQUEST ALSO INCLUDES $389 MILLION IN AID OPERATING EXPENSES, PLUS $21 MILLION FOR THE INSPECTOR GENERAL. THE AID REQUEST IS THE MINIMUM AMOUNT NECESSARY TO ADEQUATELY MANAGE THE AGENCY'S PLANNED PROGRAM FOR FY 1987. THIS LEVEL WILL PROVIDE FOR AN AID STAFFING LEVEL OF 4,825 -- WHICH WILL REPRESENT A REDUCTION OF 1,000 POSITIONS DURING THE SIX YEARS SINCE I TOOK OFFICE IN 1981. IN ADDITION TO REDUCING STAFF AND CAREFULLY MANAGING THE USE OF OUR REMAINING PERSONNEL, WE HAVE INTRODUCED A NUMBER OF OTHER MANAGEMENT IMPROVEMENTS TO CUT COSTS AND INCREASE EFFICIENCY. THESE INCLUDE GREATER USE OF AUTOMATION, INTRODUCTION OF A STANDARDIZED OVERSEAS ACCOUNTING SYSTEM, IMPROVED WORK SPACE MANAGEMENT, BETTER TRAINING FOR PROJECT IMPLEMENTERS, BETTER CASH MANAGEMENT, AND INTRODUCTION OF PRODUCTIVITY REVIEW STUDIES.

o FOR THE ECONOMIC SUPPORT FUND, WE ARE REQUESTING JUST OVER $4

BILLION -- ESSENTIALLY THE SAME AS OUR REQUEST LAST YEAR. THE FY 1986 ESF APPROPRIATION WAS REDUCED AFTER SEQUESTRATION TO $3.5 BILLION, OF WHICH $2.3 BILLION WAS EARMARKED. AS A RESULT, WE HAD TO CUT BACK CONSIDERABLY IN MANY COUNTRIES IN CENTRAL AMERICA AND IN AFRICA. OUR REQUEST THIS YEAR HELPS TO REGAIN SOME OF THE LOST MOMENTUM.

FROM A GEOGRAPHIC STANDPOINT, THE ALLOCATION OF DA AND ESF REPRESENTS SOME SHIFTS AMONG COUNTRIES AND REGIONS COMPARED TO THE AMOUNTS WE CURRENTLY HAVE BUDGETED FOR FY 1986.

-- IN AFRICA, THE REQUEST FOR DA AND ESF TOTALS $750 MILLION, UP A TOTAL OF $125 MILLION OVER CURRENT FY 1986 LEVELS, PRINCIPALLY IN ESF. THE INCREASE IS DISTRIBUTED AMONG SEVERAL COUNTRIES INCLUDING SOMALIA, SUDAN, LIBERIA, AND KENYA. THE REQUEST ALSO INCLUDES FUNDING FOR THE THIRD YEAR OF THE AFRICAN ECONOMIC POLICY REFORM PROGRAM AT A LEVEL OF $75 MILLION, THE SAME AS THE REQUEST FOR THE PRIOR TWO YEARS, ALTHOUGH IT IS AN INCREASE OVER THE AMOUNT WE ALLOCATED IN FY 1986 FOLLOWING REDUCTIONS IN THE ESF APPROPRIATION.

-- FOR THE ASIA AND NEAR EAST REGION, WE ARE REQUESTING A TOTAL OF $3.1 BILLION IN DA AND ESF, COMPARED TO THE $4.1 BILLION WE EXPECT TO OBLIGATE IN FY 1986. DA LEVELS ARE ESSENTIALLY THE SAME AS IN FY 1986, AT ABOUT A TWO PERCENT DECREASE, AND SHIFTS IN COUNTRY LEVELS ARE MOSTLY NOMINAL. THE ESF REQUEST REPRESENTS LESS THAN A ONE PERCENT INCREASE OVER THE FY 1986 REQUEST LEVELS AND IS ABOUT $1 BILLION LESS THAN ESF OBLIGATIONS IN FY 1986 -- WHICH INCLUDES FUNDS FROM THE FY 1985 MIDDLE EAST SUPPLEMENTAL. THE ESF REQUEST CONTAINS INCREASES OVER FY 1986 LEVELS FOR JORDAN, MOROCCO, OMAN, TURKEY AND THE REGIONAL PROGRAM BUT THESE INCREASES IN ALMOST ALL CASES WOULD ONLY RETURN ESF ASSISTANCE TO ABOUT PRE-FY 1986 LEVELS. ESF ALLOCATIONS FOR ISRAEL AND EGYPT REFLECT NO

CHANGE FROM THE FY 1986 EARMARKS OF $1.2 BILLION AND $815 MILLION RESPECTIVELY. $15 MILLION IS REQUESTED FOR HUMANITARIAN ASSISTANCE TO THE AFGHAN FREEDOM FIGHTERS. THIS MIRRORS THE FY 1986 EARMARK.

-- IN LATIN AMERICA, THE TOTAL DA AND ESF REQUEST IS $1.4 BILLION, COMPARED TO $1.1 BILLION IN FY 1986. THE INCREASE IS PRIMARILY DUE TO INCREASED ESF FUNDING PRINCIPALLY FOR CENTRAL AMERICA BUT ALSO FOR SOUTH AMERICA AND THE CARIBBEAN COUNTRIES. WE MUST UNDERSCORE THE PRIORITY WE ARE ATTRIBUTING TO THE CENTRAL AMERICA INITIATIVE THIS YEAR IN VIEW OF THE OVERWHELMING PROGRESS TOWARD DEMOCRATIZATION IN THE REGION AND THE TREMENDOUS NEED FOR ACCELERATION OF ECONOMIC RECOVERY IN ORDER TO SUSTAIN THOSE YOUNG DEMOCRACIES AND STABILIZE THEIR ECONOMIES. THIS ASSISTANCE IS EVEN MORE CRUCIAL SINCE ARMED STUGGLE IN THE REGION CONTINUES.

THE REQUESTED LEVELS COME CLOSE TO THOSE WHICH WERE RECOMMENDED BY THE NATIONAL BIPARTISAN COMMISSION ON CENTRAL AMERICA; HOWEVER, WE HAVE FALLEN FAR SHORT OF THOSE RECOMMENDATIONS IN PRIOR YEARS AND UNLESS WE BEGIN TO DEVOTE THE LEVEL OF RESOURCES WHICH WE ARE PROPOSING TO THE ECONOMIC AND SOCIAL PROBLEMS THERE, WE HAVE LITTLE HOPE OF ACHIEVING OUR OBJECTIVES.

IN THE CASE OF SOUTH AMERICA, WE ARE SUPPLYING ESF FUNDS FOR BALANCE OF PAYMENTS SUPPORT IN ECUADOR, BOLIVIA, PERU AND URUGUAY. NEW, DEMOCRATICALLY-ELECTED GOVERNMENTS HAVE INSTITUTED SIGNIFICANT ECONOMIC POLICY REFORMS IN ECUADOR, BOLIVIA AND URUGUAY, AND U.S. GOVERNMENT SUPPORT IS ESSENTIAL IF THESE COUNTRIES ARE TO BE ABLE TO IMPORT THE NECESSARY INPUTS FOR INCREASED PRODUCTION AND STIMULATION OF PRIVATE SECTOR GROWTH.

INCREASES IN FUNDING FOR LATIN AMERICA ALSO ARE IMPORTANT IF WE ARE TO CONTINUE ASSISTING GOVERNMENTS TO MOVE TOWARD

IMPLEMENTING ENLIGHTENED POLICIES ON NARCOTICS CONTROL WHICH IS A MAJOR U.S. CONCERN. IN ADDITION, ADMINISTRATION OF JUSTICE AND JUDICIAL REFORM EFFORTS ARE NEW AREAS IN WHICH WE MUST DO EVERYTHING POSSIBLE SO THAT THE DEMOCRATIZATION PROCESS WILL NOT FALTER.

ANOTHER KEY ELEMENT OF OUR PROGRAM IN LATIN AMERICA IS OUR SUPPORT FOR NARCOTICS EDUCATION PROGRAMS. A CRITICAL ELEMENT OF THE ADMINISTRATION'S STRATEGY FOR DEALING WITH THE INTERNATIONAL NARCOTICS PROBLEM IS TO MAKE GOVERNMENTS, OPINION LEADERS AND THE GENERAL PUBLIC OF KEY PRODUCING AND TRANSITING COUNTRIES BETTER INFORMED AS TO THE HAZARDS THAT NARCOTICS PRODUCTION AND TRAFFICKING POSE TO THEIR OWN SOCIETIES. AID PLANS TO COMMIT A TOTAL OF $5 MILLION IN DA FUNDS TO SUCH NARCOTICS AWARENESS ACTIVITIES IN FIVE LATIN AMERICAN COUNTRIES -- BOLIVIA, ECUADOR, PERU, BELIZE AND JAMAICA. OUR ASSISTANCE WILL SERVE TO COMPLEMENT OR EXPAND NARCOTICS AWARENESS AND EDUCATION INITIATIVES BEING FUNDED BY THE US INFORMATION AGENCY AND THE STATE DEPARTMENT'S INTERNATIONAL NARCOTICS PROGRAMS AND WILL SUPPORT ACTIVITIES OF BOTH PRIVATE AND PUBLIC INDIGENOUS INSTITUTIONS CONCERNED WITH NARCOTICS ABUSE.

-- CENTRALLY FUNDED DA PROGRAMS TOTAL $467 MILLION, A $4.3 MILLION REDUCTION FROM THE FY 1986 LEVEL. THESE FUNDS SUPPORT A WIDE VARIETY OF ACTIVITIES WITH A WORLD-WIDE FOCUS, INCLUDING BASIC AND APPLIED RESEARCH, DEVELOPMENT AND TESTING OF APPROPRIATE TECHNOLOGY, PRIVATE ENTERPRISE ACTIVITIES, GRANTS TO PRIVATE VOLUNTARY ORGANIZATIONS, SUPPORT FOR INTERNATIONAL AGRICULTURAL RESEARCH CENTERS, WOMEN IN DEVELOPMENT ACTIVITIES, AND SUPPORT FOR COOPERATIVE ACTIVITIES WITH THE PEACE CORPS. THESE PROGRAMS ARE FUNDED CENTRALLY BECAUSE OF THEIR GLOBAL FOCUS AND BECAUSE OF EFFICIENCIES POSSIBLE FROM CONSOLIDATED CENTRAL MANAGEMENT. THE PROGRAMS DO HAVE AN

IMPACT ON THOSE LIVING IN THE DEVELOPING COUNTRIES. AS OUR CONGRESSIONAL PRESENTATION REFLECTS FOR THE FIRST TIME, $183 MILLION OF THESE FUNDS ARE DIRECTLY ATTRIBUTABLE TO PROGRAMS IN RECIPIENT COUNTRIES. THE CENTRALLY FUNDED PORTION OF OUR REQUEST ALSO INCLUDES $25 MILLION FOR THE INTERNATIONAL DISASTER ASSISTANCE PROGRAM IN WHICH WE ARE ACTIVELY PARTICIPATING WITH DOZENS OF DEVELOPING COUNTRIES IN MITIGATING THE EFFECTS OF DISASTERS WHICH TRAGICALLY TOOK SO MANY LIVES THROUGH FAMINE, EARTHQUAKES AND CYCLONES LAST YEAR.

o FOR PL 480, THE TOTAL BUDGET AUTHORITY REQUEST IS $1.164 BILLION. THE TITLE I REQUEST OF $564 MILLION IN BUDGET AUTHORITY WILL SUPPORT A PROGRAM LEVEL OF $944 MILLION, SUFFICIENT TO PROVIDE 5.3 MILLION METRIC TONS TO 31 COUNTRIES.

FOR TITLE II, WE ARE REQUESTING $600 MILLION, WHICH WE PROJECT WILL ENABLE US TO PROVIDE JUST OVER 1.9 MILLION METRIC TONS (GRAIN EQUIVALENT) OF FOOD. WE INTEND TO CONTINUE THE EXPANSION OF PVO PROGRAMS IN AFRICA THAT BEGAN IN FY 1986 TO ASSIST THE RECOVERY FROM THE EFFECTS OF THE AFRICA DROUGHT. PORTIONS OF SOME PVO PROGRAMS WILL BE MONETIZED IN ORDER TO PROVIDE NECESSARY RESOURCES FOR SUCCESSFUL PROGRAM IMPLEMENTATION.

o FOR THE TRADE AND DEVELOPMENT PROGRAM, WE ARE REQUESTING $18 MILLION, ESSENTIALLY THE SAME AS THE FY 1986 LEVEL AFTER SEQUESTRATION.

o UNDER MULTILATERAL ASSISTANCE, THE ADMINISTRATION IS REQUESTING A TOTAL OF $1.39 BILLION FOR EXISTING COMMITMENTS TO THE MULTILATERAL DEVELOPMENT BANKS AND FOR FUNDING OF THE NEW MULTILATERAL INVESTMENT GUARANTY AGENCY. THIS NEW ORGANIZATION CAN HAVE A VERY USEFUL IMPACT ON DEVELOPING COUNTRY POLICIES TOWARD FOREIGN INVESTMENT AND ON ENCOURAGING INCREASES IN INVESTMENT.

o For International Organizations and Programs, we are requesting $186 million.

o The Administration is also requesting $126 million for the Peace Corps. May I note that over the past few years the extent of cooperation between AID and the Peace Corps has increased greatly, leading to a much better joint effort by the two agencies in carrying out American foreign policy objectives and in helping to meet basic development needs.

AID's ultimate goal is a world in which economic growth and development are self-sustaining and extremes of poverty have been eliminated. The long range foreign policy objectives of the United States are best served by a world of sustained economic development and general human well-being. Our task is to help poor people to help themselves through enhanced opportunity. This is a governing philosophy of the assistance program that we are submitting to you. We believe this program worthy of your continued strong support.

Mr. Chairman, I will be pleased to answer your questions.

Prepared Statement of Mark L. Edelman

ASSISTANT ADMINISTRATOR FOR AFRICA

AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, Members of the Subcommittee.

It has become apparent in Africa that it will take more than wishful thinking and fiscal resources to hasten the pace of development. We have, over the years, told you about policy reform, agricultural developments, and improvements in social services. It has all helped, but with the exception of a few countries, development progress has slowed in Sub-Saharan Africa.

The U.S. cannot solve Africa's development problems. Although we have been the lead donor promoting innovation and change in development strategies, fundamental responsibility for Africa's development should and must rest with Africans themselves. We can provide financial and moral support for their efforts, help develop new technology and offer guidance, but even our contribution is a minor part of the total bilateral development resources available (about 14% of all official development assistance) and the overall development process. Most important for successful development is the question of African leaders' motivation and will. It cannot be borrowed or bought or sold to the highest bidder. It must come from the heart of Africa and its people.

I am not going to tell you that we have the answer to the African development quandary. Nor am I going to say that everything we are doing will be successful - although we can be proud of our record to date. But I would like to share a few of my recent observations with you.

There are two important things that have happened during the past year.

The Drought: For the past two and one half years, Sub-Saharan Africa has undergone a severe drought without the anticipated massive loss of life. This holds true not only for the Sahelean countries where crop shortages continued into a third and fourth year, but also in nations torn by civil strife. In Ethiopia, where donors received little cooperation from the government, the drought's toll, although high, was nowhere near the projections from on-the-ground observers. The donor community made an unprecedented humanitarian food aid contribution. We can all be proud of that effort. However, I

think it is particularly significant that the important t:aditional, failsafe drought mechanisms of the rural populations worked once again.

The Recovery: The second notable occurrence over the past year has been the startling post-drought recovery that has begun throughout much of Africa. With governmental services and supply links stretched to capacity handling emergency relief, and with the donor community and private and voluntary organizations occupied with the provision of life saving services, somehow agricultural inputs have been made available to farmers, crops have been sown, the rains came, and a good harvest was gathered and is now being marketed.

This, I believe, not only demonstrates the resiliency of Africans as a whole, but also the effectiveness of the private sector and the tremendous uncharted trade and commerce patterns at work in Sub-Saharan Africa.

The two lessons learned from the drought, (the resiliency and resourcefulness of the African people, and the strength of the parallel market economy) make it increasingly clear that Africans must play to their strengths in formulating their development strategies.

Fortunately, this appears to be happening at a surprisingly rapid rate. The Africans are becoming more creative in the formulation of development policies and stategies.

We see more and more evidence that African leaders are moving away from strong centralized governments which promote over-zealous social service programs and state control of their

economies. Africans are beginning to exploit the traditional strengths in their private sector and the free market economy.

In Somalia, the government has eliminated agricultural price controls and begun shifting grain marketing to the private sector. These actions have been a significant factor in increased grain production. Somalia has also adopted a policy to sell off some non-profitable parastatals to the private sector and convert others to a mixture of public and private firms.

In Togo, similar changes have taken place. Plans to sell twelve of seventy parastatals to the private sector have been announced by the government. In addition, the government is studying the possibility of getting out of the agricultural export system.

In Malawi, A.I.D. is assisting with the sale of a group of sixteen agricultural estates totaling about 60,000 acres to several U.S. investors who have modern farming and cattle raising operations in the United States.

In Kenya, a cabinet level privatization panel was appointed more than a year ago, and the government recently sold Kenya Fisheries Ltd. and put up the government long-haul transport company for sale.

These are only four examples of privatization efforts occuring across the African continent. We are making a strong attempt to tailor our assistance to support the growing pace of economic reform.

The FY-87 Program

We propose a program level of one billion dollars for Africa in FY-1987. This total includes development assistance, economic support and PL-480.

The $339.9 million proposed for development assistance includes:

--$148.0 million for agriculture and rural development

--$ 23.0 million for population

--$ 31.6 million for health and child survival

--$ 36.9 million for education and human resource development

--$ 20.4 million for selected development activities

--$ 80.0 million for the Sahel Development Program

In addition to development assistance, we request $410.5 million in Economic Support Funds to promote economic and political stability.

In PL-480 we request a total of $250.0 million: $158.0 million for Title I (which includes $20 million for Title III), and $92.1 million for Title II. Emergency food aid - if needed - would be allocated from the worldwide Title II reserve and would be additive to the requested levels.

For the past several years we have emphasized several specific themes in our African development strategy. We will continue them in the coming year. The principal ones are:

Agricultural Research and Production: In FY-87, we propose financing about $75 million in agricultural research activities. Some of this support will go to on-going institutional based research efforts, but much will fund on-farm and practical experimentation. We have become convinced that sophisticated agricultural research need not be carried out in every Sub-Saharan country, and with the exception of some central research facilities, our funding will be confined to research trials which will translate into immediate production increases.

Our support of direct production projects will also continue for FY-87, and will include about $65 million in development assistance support. These programs include agricultural inputs, technical and management training, water exploration and irrigation, and marketing development.

Human Resource Development: Training and institutional development have long been a cornerstone of the A.I.D. program worldwide, and this emphasis will continue in FY-87 with about $40 million made available for direct support and nearly twice that amount invested in training through our bilateral projects in the other functional budget categories.

Health and Population Development: Our bilateral health, child survival, and population support request for FY-87 is $54.6 million. We are currently emphasizing primary health care, child survival (immunizations, oral rehydration, and better

infant and child nutrition) as well as support for Africa's increasing family planning programs.

The above three categories make up the traditional projectized core of A.I.D. funded activities. We will continue these efforts.

Enhancing Our Development Impact

The recent drought experience illustrates the importance of our emphasis on agricultural development and the improvement of social service programs. Africa is not food self-sufficient on a year-to-year basis. Until it is, countries with a solid and progressive developmental history can be almost devastated overnight by food shortages.

Agriculture and food production will continue to serve as the foundation for our program. But we can build upon some of the lessons learned during the drought. This re-examination of our programming serves not only to justify some revised strategies, but also adds immediacy to their introduction.

The fact that we want to build on the non-governmental strengths in Africa should not come as a surprise.

I find myself thinking of Mark Twain's story about the eighteen year old boy who thought his father was the dumbest man he had ever known, and then upon reaching twenty, he was startled to see how much his father had learned in two years time. Africans, too, have had the answer to their development dilemma all along. But it has taken the maturity caused by the drought, crushing debt burdens and declining economies to bring it to the surface. African leaders are finally realizing that

growth comes through following appropriate economic policies and private sector initiative, not from government dictates.

Realistic policy based on market forces works in spite of the pervasive governmental ineptitude, and it insures that products flow in and out of markets based on actual demand rather than artificial government quotas set by ineffective parastatals. Most importantly, the private sector provides the major source of incentive and hope for hundreds of millions of people throughout Africa.

In order to tap the private sector developmental forces in Africa, A.I.D. is seeking to put an ever increasing focus on the following:

Policy Reform: In FY-87 we request funds for the PL-480 Title I program ($160 million); commodity import programs and cash grants ($200 million); sector and program assistance keyed to institutional and policy reform ($70 million); and, a continuation of the African Economic Policy Reform Program ($75 million). All of these efforts are designed to improve the policy environment in Sub-Saharan Africa with particular emphasis on reducing the size and control of government.

Direct Private Sector Support: We are planning to devote $12.2 million to new projects which will fund direct private sector support. In addition, we are making $2.1 million available for the African Private Enterprise Fund which will provide technical assistance and marketing studies to facilitate private sector development.

Private and Voluntary Organizations: We will continue to use private and voluntary organizations in the African program.

The achievements of private and voluntary organizations during the drought were extraordinary. We want to continue to foster their participation during the coming year with non-drought related activities totaling $45.7 million.

Our intention to enhance our traditional African developmental emphasis to match the pan-African swing away from centralized governmental control is based not only on the experience of the past two years, but also on the difficult lessons Africa has learned the hard way during the post colonial period. In a recent article put together by the World Bank to explain differences in economic growth, a comparison was made between African and East Asian development patterns of the past two decades. Several important factors were noted:

-- East Asian countries stimulated private savings and initiative through low taxes and free markets. In contrast, African governments overextended themselves, particularly in the direct management of industry and agricultural marketing.

-- Economic growth is strongly correlated with real growth of domestic credit to the private sector and the share of private sector credit in total domestic credit. Growth of credit available to the private sector has been much higher in East Asia than in Africa.

-- The private sector uses its resources much more effectively than do government and public enterprises.

-- Governments can stimulate private agricultural production in such ways as reducing price controls,

permitting private sector marketing of farm products, and providing timely, adequate supplies of fertilizer and seeds to small farmers. Countries like Zimbabwe, Kenya and the Ivory Coast that have done a comparatively better job in encouraging the private farmer have historically registered significantly higher production levels than have countries such as Ghana and Tanzania, which have had less favorable policies.

-- Many African leaders now admit that nationalized economies and statist policies are a major factor contributing to their poor economic growth record. There is, as a result, a strong movement to privatize state operated enterprises.

The necessity for African governments to divest themselves of price and marketing responsibilities has broader application than breaking up parastatals and removing price subsidies.

The debt burden of African governments, when combined with the low tax base and recurring institutional obligations, leaves little or no discretionary income for developmental investments.

Expansion of necessary and appropriate social services such as health may well be more effective if partially removed from the public sector. As an example, health budgets rarely comprise more than three percent of national budgets in less developed African countries (as compared with five percent in middle income countries and eleven percent in the industrial world). This makes long-term support for publicly financed health interventions extremely difficult - particularly where the revenue base is small.

Taken as a region, Africa is the most sparsely populated geographic area in the developing world. Thus, the per use cost of delivering services is very high due to transportation and manpower constraints.

We are implementing a strategy which will put an increasing emphasis on private sector support coupled with community controlled service systems. If curative health services are now being delivered through indigenous practitioners and druggists, then we should support them directly rather than building up another central system under government control which lacks community trust and support.

We believe the same sort of emphasis will work in agriculture. Historically, in areas where the production and marketing of crops are tightly controlled by government (peanuts in Senegal and Gambia, corn in Madagascar and until recently in Ghana, rice in Madagascar, cotton/coffee in Tanzania) production decreases. As the price for cash and food crops is allowed to float (sorgham in Sudan, and recently with corn in Ghana) production increases. Not only does the private market system work in Africa, it requires a minimal infrastructure investment from government.

In Rwanda recently, new potato varieties with the potential to more than double yields have been developed by the International Potato Center in collaboration with the Rwandan national research system. In fact, the new varieties developed on experimental test plots are in such high demand that farmers are making midnight raids into experimental fields, digging up new seed potatoes, planting them in their own fields and then selling their crops to traders who market them throughout Rwanda and Eastern Zaire. In the process, the new varieties

are spreading rapidly throughout the area without government assistance.

The Job Ahead

A.I.D. has sponsored a core of returned participants throughout Africa waiting to make a contribution to Africa's development. Although some are in the public sector, many of these people are in the private sector furthering the development effort in their country.

We also have U.S. direct hire and foreign national staffs in our missions who continue to demonstrate their extraordinary degree of dedication to duty. Their performance during the drought is only the most recent example of their work.

Certainly the upcoming years present a real challenge for us in Africa. I believe we have much to offer. Africans themselves, however, must take the lead and make the tough decisions. Most have, in fact, begun making dramatic and often politically risky changes which hold out the potential for healthier economies and improved living standards. We should not step away from them just as they finally start making the right moves.

I would be delighted to respond to your questions. Thank you.

PREPARED STATEMENT OF CHARLES W. GREENLEAF, JR.

ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND NEAR EAST

AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to present the Asia and the Near East Bureau's budget request for FY 1987.

The geographic area covered by the Asia and Near East Bureau stretches from Portugal to the South Pacific. The area's social, economic, and political diversity are commensurate with its size. South Asia is the locus of the great preponderance of world poverty; Southeast Asia has some of the most dynamic Third World economies; these and the Near Eastern, North African, and European countries assisted are central to many of the most essential political and strategic goals of the United States.

The budget request for FY 1987 for this region, covering some two dozen bilateral and sub-regional programs, has been constructed and is submitted in full recognition of domestic financial constraints. We are requesting $2.74 billion in Economic Support Funds (ESF); $384 million in Development Assistance (DA), and $504 million in PL 480, Titles I and II. We are also requesting $20 million for a new Northern Ireland/Ireland program for FY 1987, as well as a $20 million supplemental appropriation for FY 1986.

Among the foreign policy objectives supported by the programs requested are assistance to the Filipinos in their economic recovery; strengthened political stability and support for key actors in the ongoing Middle Eastern peace process; help for

the forces resisting military aggression in Afghanistan and Cambodia; compensation to nations hosting some of our most important overseas military establishments; efforts to reduce illicit narcotics cultivation; and, as always, training, financial, and technical assistance to poor people and countries to enable them to improve their incomes and quality of life.

REGIONAL DEBT/BALANCE OF PAYMENTS PROBLEMS

Countries in the ANE region are experiencing varying degrees of pressure on their balance of payments, which can erode or indeed erase hard-earned development gains. Some countries are adjusting through policy reforms while others have yet to take appropriate action.

The Philippines and Morocco are among the dozen or so major debtor countries in the world. Both countries borrowed heavily in the late 1970s and early 1980s, and financed investments that were basically unproductive. Adjustment will take at least three to five years, and will require fundamental reforms to transform the structure of production, demand, and trade. Both have rescheduled debt payments and have begun to implement adjustment programs in association with the IMF and World Bank. Performance has been mixed. There have been serious delays, but the programs are still intact. The success of these programs--in terms of both implementation and results--remains to be seen. The Philippines has sharply reduced inflation and the current account deficit, but through declines in demand and GDP. The improvement in Morocco's current account has been less dramatic. At the same time Morocco has been successful in maintaining at least slow growth in GDP.

The trends in Egypt's balance of payments are decidedly negative. Without policy reforms Egypt will soon face problems of the same magnitude as the major debtors, including the need to reschedule debt. So far Egypt has taken some measures to reduce subsidies and improve fiscal and monetary performance. Exchange rate management is still a serious policy issue. More generally, Egypt has not yet implemented policies that would merit IMF support.

Nepal has experienced a sharp deterioration in its balance of payments, the dimensions of which are not yet fully clear. The GON recently initiated a stabilization program in association with the IMF, and is discussing more far-reaching structural reforms with the U.S. and the World Bank.

Balance of payments problems are less alarming, though still significant, in countries such as Pakistan and Bangladesh. Each of these faces an adjustment problem that is sizeable but tractable, and each is making some progress in formulating and implementing a suitable program of policy reform.

Thailand and Indonesia have experienced sharp negative shocks, in the form of declines in prices of important commodity exports such as rice and oil. However, both countries have a good track record where balance of payments management is concerned, and we have confidence in their capacity to adjust to these shocks.

Balance of payments developments in Sri Lanka and India bear watching, but are not yet critical. Both countries have managed their balance of payments reasonably well over the past eight years. However, political tensions in Sri Lanka indicate a reduced capacity to implement difficult adjustment measures.

A.I.D. PRIORITIES

The four principal instruments of A.I.D.'s economic assistance programming continue to be policy dialogue, technology transfer, institution building, and emphasis on private enterprise.

SOUTHEAST ASIA

Philippines

The momentous events of February 1986 have resulted in a reexamination of U.S. economic assistance for the Philippines. Since coming to power, the Aquino Government has publicly stated it places a high priority on economic recovery and reform. All indications are that the new Government intends to move quickly to put together an economic program that emphasizes dismantling of private sector "crony" monopolies, divestiture of public sector corporations, and strengthening the market environment for private entrepreneurs. The Aquino Government has organized an excellent economic team with sound business sense and a strong respect for market forces.

The Administration sent a team to the Philippines in March--headed by the A.I.D. Administrator Peter McPherson and comprised of senior Treasury, Defense, and State Department officials -- to acquaint ourselves more fully with the desires of the new Government and to discuss with their new economic team the country's economic situation and prospects. In the course of discussions in Manila, the Reagan Administration hopes to begin exploring with the Philippine Government its agenda for structural economic reform. We expect to determine how the United States, in cooperation with other official

bilateral and multilateral donors and the private sector, can be most helpful.

It is important, however, that the euphoria which followed the dramatic political changes in the Philippines not mislead us into thinking that the new Government's task of reforming the economy will be easy. The economic crisis the Philippines faces, and the policy and structural problems from which the crisis stems, did not change with the change in leadership in Manila. However, the potential to address these problems satisfactorily has increased since the new Government took power.

The Philippine economy will likely face continued economic decline in 1986, although at a slower rate than in 1985. Most estimates we have seen point to another year of no growth or slightly negative growth. Also, the peso, which had depreciated to about 25 pesos to the dollar earlier this year, has recovered slightly and is floating at around 21 pesos to the dollar. There are signs of renewed business confidence since the Aquino Government took office, but it is too early to assess the impact this will have on the economy in the short or longer run.

The challenge for the Philippines this year will be to implement those policies which will set the stage for economic growth a year from now. The last three years have witnessed a dramatic fall in per capita incomes from around $800 in 1982 to about $600 in 1985. With the population increasing at about a 2.5 percent annual rate, this year will see another decline in incomes and living standards. It is vital that all of our efforts, working bilaterally and in concert with other donors, be devoted to reversing this trend, and to laying the basis for long-term sustained growth.

The new Government has indicated its interest in economic reform. Already there have been public statements about dismantling monopolies owned by "cronies" affiliated with the Marcos regime, divesting the public sector of corporate and financial activities which are a drain on the Government's budget, and strengthening market forces, all of which should help restore confidence and investment. This agenda will be an ambitious one to execute and may require substantial donor support. We continue to emphasize a coordinated, multilateral donor approach to helping the Philippine government implement these and other policy changes which are still being identified.

The impact of the change in the Philippine Government on the proposed program for FY 1987 is not yet clear. The Administration's request for FY 1987 is $95 million in Economic Support Funds, $23 million in Development Assistance, and $7.7 million in PL 480 Title II food assistance. These figures still represent the Administration's assessment of what is required for the Philippines, and no changes in it have been made at this time.

Our A.I.D. Mission in Manila is discussing with the new Government how best to proceed with the current portfolio of Economic Support Fund and Development Assistance projects. We believe the new Government will be interested in retaining many of the valuable technical assistance and training activities in the agricultural, health and energy sectors, as well as selective continuation of research, rural infrastructure and institution-building programs. Decisions on current programs and future initiatives will be reached in consultation with the new Government over the next few months. We will consult with Congress when and if new proposals are developed.

Indonesia

Development Assistance in the amount of $55 million, $15 million in PL 480 Title I and $4 million in PL 480 Title II are proposed for Indonesia. The A.I.D. program strives to strengthen and diversify food production, improve primary health care and family planning, and expand off-farm employment. To reach these goals the program helps to improve Indonesian technical, management and policy-making skills. These improvements contribute to Indonesia's capacity to adapt new technologies needed to enhance development.

A.I.D. also encourages the government to decentralize operations and to rely more upon private firms in technology use. The program supports policy analysis relevant to the goals mentioned above through research and demonstration projects and the Mission's policy dialogue with government officials. These goals complement those of Indonesia's current five-year plan, which give priority to investments in agriculture, human resources, energy, industry and rural development.

The goals become increasingly relevant as Indonesia's economic fortunes have become increasingly tied to conditions in the world economy. Of particular concern to the Indonesians is the recent decline in world oil prices, since oil and gas currently account for about 70 percent of the country's exports and two-thirds of budget revenues. Although the outlook for oil prices dominates any projections about the economy, Indonesia's long-term prospects will also be conditioned by the price prospects for other primary commodities, the growth of world trade, and real interest rates. The Indonesian government's structural adjustment efforts have emphasized rapid growth of non-oil exports.

Thailand

Our request is for $19 million in DA and $5 million in ESF. AID's development assistance strategy for Thailand has changed in consonance with Thailand's development progress. The principal elements of our new strategy support the country's development objectives by assisting in two major areas: (1) scientific and technological research; and (2) industrial development in rural areas, particularly small- and medium-scale agribusiness. These problems are also expected to be priority concerns addressed in the Thai Five-Year Development Plan for the period 1986-91. In addition, ESF funds are used for the purpose of assisting rural communities affected by refugee inflows and fighting along Thailand's border with Cambodia and Laos.

Thailand is currently in what is generally perceived as a short-term economic slowdown. Real GDP growth in 1985 was no more than 4 percent compared with 6.2 percent in 1984. Agriculture has had great difficulties because of the exceptionally low world prices for the major export commodities. Performance in the industrial sector was decidedly mixed. The debt service ratio has risen to an unprecedented 28 percent which so far has not affected the country's creditworthiness; a plan to refinance up to $700 million worth of debt during 1986 is well under way.

The key issue for Thailand's long term economic well-being will be its ability to increase export earnings, particularly from manufactured goods. The changing focus of AID's strategy in Thailand should help address these problems. The focus of the program has begun to shift from regional poverty to that of accommodating evolutionary changes in Thailand's growth patterns and needs.

Burma

The $10 million DA program in Burma concentrates on the production and processing of selected crops so that Burma becomes less dependent on imports and moves closer to meeting its own domestic food and nutrition requirements, and on primary health care to reduce mortality and morbidity, especially among infants and children. A.I.D. is also supporting the development of human resources through training in the U.S. and third countries, focusing on strengthening Burmese institutional capacity to ensure the sustaining of technological gains and to create a base for future economic development.

Burma is one of the world's ten poorest countries in terms of per capita income, yet it has vast unexploited resources. The import substitution aspect is particularly important in Burma, where economic performance appears to have stagnated during 1985. A deterioriating balance of payments situation (due primarily to decreased rice export earnings, which account for 40 percent of the value of Burma's exports) has resulted in a decline of foreign exchange reserves to a level equivalent to less than one month's imports. Spinoffs of these effects include shortages of capital equipment and investment goods, high rates of unemployment and underemployment, and inadequate and deteriorating infrastructure in almost every sector. A large portion of imports through a parallel economy mitigates this overall negative impact. Nevertheless, these and other serious economic problems portend slower economic growth in the future.

South Pacific

The regional program for the island nations of the South

Pacific is budgeted for $4.5 million DA and $1.5 million ESF. The ESF component is for the second year of a fisheries development assistance program to begin in FY 1986. It is intended to counter Soviet initiatives in the region and to help bring to a successful conclusion negotiations for a regional fisheries agreement between the U.S. and the South Pacific Island nations. The Development Assistance will concentrate on maximizing U.S. development visibility and impact in the agriculture and health sectors, with special attention given to using the mechanisms of private sector involvement and training.

Fiji

A small program comprising $1.5 million ESF is requested for Fiji. Our program delivers on the President's commitment to Prime Minister Ratu Mara in November 1984 and is intended to maintain Fiji's role as a moderate and influential pro-U.S. force in the South Pacific.

Regionally Funded Programs

Two additional programs, funded under the ANE Regional account, are targeted at the East Asia region. The first is up to $5 million in ESF for the Congressionally-authorized program of assistance to the non-Communist Cambodian resistance forces. The framework for this program, which will begin in FY 1986, has now been worked out with the Thai Government. We expect to negotiate the final text of an agreement with the Thai Government later this month. Only non-lethal assistance will be provided.

The second regional program is $3.9 million DA to support the Association of Southeast Asian Nations (ASEAN) regional

development efforts in human resources, energy, marine sciences, environment, and small and medium enterprise development.

SOUTH ASIA

Pakistan

In Pakistan, $250 million in ESF is supplemented by $25 million DA and $50 million in PL 480 Title I vegetable oil. Our general objectives focus on: (a) improved social infrastructure, especially in health and family planning; (b) divestiture and deregulation of economic production and distribution functions to promote private sector participation; (c) improved agricultural pricing, research and extension policies necessary to achieve ambitious national growth targets; (d) increased efficiencies in energy production and distribution with support for electricity tariff reform; and (e) eradication of illicit opium poppy cultivation.

In FY 1987, A.I.D. funds will be used primarily to sustain our ongoing programs in the three major sectoral areas of concentration: agriculture and rural development, energy, and health and family planning. A.I.D. will continue to support: improved irrigation management at all levels within the water distribution systems; the additional phases of the program to modernize and expand the Northwest Frontier Agricultural University; and the fertilizer, energy and agricultural equipment funded through commodity import programs.

Other FY 1987 funding will sustain the development activity in Baluchistan. We will also continue funding A.I.D.'s innovative Social Marketing of Contraceptives project, which seeks to

harness market forces and the private sector to broaden the distribution and sale of contraceptive materials. Malaria control and the Tribal Area Development project will receive additional funding.

In the energy sector, work will continue on Rural Electrification and on Energy Planning and Development. The Energy Planning and Development project has a special emphasis on conservation and on coal resource development. We are also completing feasibility studies for the proposed Lakhra project which would be Pakistan's first major power plant supplied by indigenous coal.

In FY 1987 we will again provide $50 million in P.L. 480 Title I assistance to assist Pakistan in meeting domestic demand for edible oils. As in past years, PL 480 Title I local currency generations will be used for critical development projects.

Our policy dialogue and project activity support a growing economy. Economic performance in Pakistan during 1984-85 set a record for GDP growth at 8.4 percent. Agriculture led the way with 9.9 percent growth based mainly on a record cotton crop. The high level of GDP growth represents a recovery from the previous year's depressed performance of 3.4 percent which reflected, in part, a massive failure in the cotton crop. However, increased production was not matched by higher export performance or increased public revenues and the country's balance of payments position deteriorated markedly.

Pakistan continues heavy expenditures relating to the presence of more than two million Afghan refugees and the modernization of its defense capabilities.

Overall annual growth has averaged better than six percent in

recent years, which is above the South Asia average. Favorable weather and the beginnings of a process of economic liberalization have allowed Pakistan to continue its overall economic growth. Over the medium term, however, the Pakistan government will need to address the intensifying balance of payments difficulties, sluggish export growth, reduced remittances from overseas Pakistanis employed mainly in the Gulf, and continued weak domestic resource mobilization.

India

We are requesting $72 million DA and $80.5 million P.L. 480 Title II for India. The India program is particularly innovative. It emphasizes agricultural modernization, renewable resources management and development, voluntary family planning and child survival, and science and technology for development. The irrigation and forestry portfolios exemplify our emphasis on institution building. Technology transfer pervades the irrigation, forestry, agricultural research, industrial research and development, and biomedical programs. The Title II program focuses on oilseeds development through cooperatives, nutrition education, rural employment generation, and increased agricultural production. Before describing the FY 1987 program more specifically, I would like to comment upon the larger economic context within which our program operates.

In Indian FY 1984-85, real GNP increased 3 percent to provide a per capita income of $251. Agriculture production did not exceed 1983-84 levels, registering zero growth against population growth of 2.1 percent. Industrial production grew by 5.5 percent in the same period. The annual inflation rate was 9 percent.

India's balance of payments turned a small surplus with

reserves affording a five months import cover. The debt service ratio was 15 percent of current earnings, and is expected to mount rapidly over the next few years as large IMF repayments come due. The problem will be exacerbated by a leveling off of domestic oil production and resultant increases in oil imports, plus a general expansion in imports in response to economic liberalization measures.

These measures were instituted by Prime Minister Gandhi to stimulate modernization and improve productivity, as part of the effort to achieve the 5 percent annual GDP growth target of the Seventh Development Plan. This growth target is considered by the Indian Government to be the minimum essential level required to raise chronically low per capita incomes, and reduce the numbers of people living below the poverty line (currently about 40 percent of the population).

During Fiscal Year 1987, A.I.D. will continue to support agricultural modernization aimed at increasing the incomes of the rural poor by introducing new integrated approaches to land and water design and management in selected states; strengthening state-level water management institutes; training personnel in management principles and appropriate technology for forestry management, education, and research; and supporting forestry research and state-level social forestry projects, and improved central government policy guidance on forestry issues.

AID will intensify support for agricultural research by associating with selected components of the All-India Coordinated Research Program and by working with selected state governments in programs of technical collaboration.

We will continue to assist in developing, expanding, and

improving the quality of health service and child survival programs which include oral rehydration therapy, child immunizations, family-planning spacing methods, and nutritional improvements which, together, have the highest potential for reducing infant and child mortality rates. Funding will also continue to support the creation of an epidemiological network in India.

PL 480 Title II resources will be used to support oilseeds development through cooperatives; Food-For-Work; and maternal/child health and school feeding programs operated by PVOs such as CARE and CRS.

Bangladesh

We are requesting $75 million in Development Assistance, $64 million in PL 480 Title III and $16.3 million in Title II assistance for Bangladesh. Our strategy is aimed at reducing fertility, increasing agricultural production, and generating rural employment. Basic to this strategy is an active policy dialogue with particular emphasis on strengthening the role of markets and increasing the scope of private sector participation in the economy. The broad impact of AID's programs in Bangladesh can be measured best by important policy changes, which have been supported by substantial U.S. assistance.

Economic performance in FY 1985 improved in some respects over FY 1984, particularly in foodgrain production, but weakened markedly in other areas. Real GDP rose approximately 3 percent over FY 1984, roughly keeping pace with the population increase, which means that per capita income did not rise. With good management, foodgrain production increased 4.3 percent, despite floods and drought.

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On the other hand, in contrast to 5 percent growth in 1984, industrial production rose only 3.4 percent in 1985; further softening is expected in early 1986. Rapid monetary expansion, declining remittances, worsening terms of trade and increased debt repayments put additional pressure on foreign exchange reserves. Export prospects for 1986 are more uncertain than last year for jute, tea and garments.

In light of balance of payments difficulties, the Government succcessfully negotiated a $190 million standby arrangement with the IMF. The Third Five Year Plan, issued by the Bangladesh Government in November 1985, proposes somewhat optimistic targets but reinforces the Government's intent to continue privatization policies and increase industrial investment.

In response to donors' urging, the Government of Bangladesh has taken measures to control credit expansion, reduce subsidies, reduce administrative controls on some prices, raise utility rates, liberalize the trading system, and undertake exchange rate reforms. A.I.D. has supported major economic reforms undertaken by the Bangladesh Government over the last few years, including:

-- Complete overhaul of foodgrain pricing and marketing systems. This effort is supported by PL 480 Title III commodities;

-- Denationalization and decontrol of fertilizer sales; and

-- Revision of the interest rate structures and management improvements in the rural banking system to reduce subsidies, improve the loan recovery rate, and promote more

effective lending by rural banks. U.S. development assistance has supported these important changes.

In our FY 1987 program, we plan to provide funds for new and ongoing activities including:

-- Continued support for government and private family planning service delivery programs and for demand creation initiatives;

-- Support to strengthen Bangladesh's agricultural and forestry research system;

-- Pursuit of a new multi-year PL 480 Title III program to improve foodgrain and agricultural policies;

-- Continued provision of such rural infrastructure as farm-to-market roads and electricity;

-- Continued efforts to promote small, labor-intensive enterprises;

-- Continued privatization of fertilizer distribution through a national wholesale network;

-- Support to provide quality in-country and U.S. training in public administration, management, business administration and economics; and

-- Assistance to NGOs to provide more maternal and child health services.

Sri Lanka

The request for this program is $20 million in DA, $19 million for PL 480 Title I and $2 million for Title II markets. Budget and balance of trade deficits both continued to expand and public debt increased substantially. The 1986 budget introduced significant tax and tariff revisions to reduce fiscal imbalances, non-essential imports, and boost exports.

Nepal

The $14.4 million DA program is directed to humanitarian and development needs with project emphasis on agricultural and rural development, water management, arresting environmental degradation, and family planning, health, and teacher training. These are A.I.D.'s priority areas for developing one of the poorest countries in the world.

In terms of agricultural productivity, the Institute of Agriculture and Animal Science follow-on project helps to build capacity to train professional agriculturalists and extension agents. By the end of FY 1987, the Institute will be graduating some 480 students annually. The Agricultural Research and Production project, focused primarily on chronic food deficit hill areas, will continue to support improved national agricultural research, extension, and seed supply systems. More efficient use of vital water resources for agriculture will be supported through the Irrigation Management project by developing training and service units for operation and maintenance in the Government's irrigation department.

The Resource Conservation and Utilization (RCU) project is probably the largest field effort in Nepal focused primarily on

resource conservation. The program concentrates on field activities in forestry, erosion control and land use management. The new Institute for Renewable Natural Resources project will assist development of a school for advanced training in forestry, natural resource conservation and related disciplines.

In population and health, the Integrated Rural Health/Family Planning project will promote expansion of a successful contraceptive retail sales program and test contraceptive market techniques in village settings. The project will also build on initiatives begun earlier with Child Survival Funds in assisting promotion of oral rehydration therapy, and reduction of child deaths from respiratory diseases. At the same time, the PVO Co-Financing project will assist U.S. private voluntary organizations and their Nepalese counterparts in implementing small, but high impact programs in population and health.

The A.I.D. program in Nepal assists a country facing major economic problems. Nepal's economy continues to stagnate. Agricultural production, which contributes 60 percent to GDP, which constitutes 75 percent of exports and employs 90 percent of the work force, is almost totally dependent on climatic factors. Severe monsoons again inhibited growth of agricultural output and real GDP growth in 1984-85. This followed an economic rebound in 1983-84 after a severe drought in 1982-83.

Nepal's balance of payments has deteriorated sharply, resulting in substantial losses of foreign exchange to cover the deficits. Underlying the strong import demand pressures were the government's strong expansionary fiscal management policies in the face of weak revenue performance. A $20 million IMF

standby negotiated in December 1985 aims at reversing the current balance of payments slide by 1987. However, sharply reduced prices for imported oil may cause a turn-around to occur in 1986.

Afghanistan

The $15 million ESF requested provides humanitarian support to Afghan victims of the Soviet occupation. Funding priorities have been established to: (a) support education and health programs inside Afghanistan; (b) improve agricultural production, including livestock management and veterinary services; and (c) provide commodity support.

Private voluntary organizations, U.S. based or other, are expected to play a significant role in implementing the A.I.D. program. Another key element of the A.I.D. approach is encouragement of continued and expanding humanitarian assistance from European and other western and non-aligned donors.

NEAR EAST-NORTH AFRICA

Israel

A cash transfer of $1.2 billion is requested for direct support of Israel's civilian economy, thereby facilitating maintenance of a modest rate of economic growth and management of Israel's balance of payments problem. In conjunction with economic policy dialogue, our assistance provides support for Israel's stabilization and growth. A U.S.-Israeli Joint Economic

Development Group was formed in 1984, and continues to function actively as a forum for policy discussions.

Israeli economic performance declined in the mid-1970's following two decades of rapid growth. Since then, the rate of growth has averaged less than 3 per cent per year. For 1985, GDP grew by less than 2 per cent. Moreover, the country continued to suffer from triple digit inflation and balance of payments difficulties. However, price increase trends were sharply downward during the last half of 1985 in response to a new, more comprehensive program introduced by the government in July. Current government programs seek to reduce budgetary deficits by slowing down public sector consumption and reducing subsidies and transfer payments. At the same time, the government is attempting to ensure economic growth.

In recent years, there have been some reductions in the current account deficit, which declined from a peak of 9 per cent of GDP in 1983 to an estimated 6.5 percent in 1984. For 1985 the current account may have been in surplus, thanks in part to increased U.S. grant assistance. Improved performance is due in part to maintenance of more realistic exchange rates which improve the competitiveness of Israel's exports. Past current account deficits have been financed through overseas borrowing. As a consequence, the country's gross debt service obligations have been high: 25 per cent-30 per cent of exports plus transfer payments since 1981.

The government has embarked on an economic program to restore stability in its balance of payments, improve domestic economic performance, and reduce inflation. It is still too early to assess the outcome of these programs, but initial indications are favorable, particularly with respect to prices. Continued government cutbacks in budget expenditures, maintenance of a

realistic exchange rate, and wage restraint are essential. Reforms in the areas of tax, monetary, and investment policy and improvements in the labor and capital markets would be useful in facilitating a return to stability in Israel's external accounts and resumption of vigorous, non-inflationary economic expansion. These subjects are, and will continue to be, discussed by the Joint Economic Development Group.

Egypt

This program consists of $815 million in ESF, $185 million in PL 480 Title I, and $4.9 million Title II. With these resources, A.I.D. continues to: (1) encourage, support, and then respond with assistance to specific Government of Egypt economic policy reforms; (2) support balance of payments through cash transfer and commodity imports with an increasing share of the commodity import program channeled to the private sector to improve productivity in agriculture and industry; (3) promote a favorable climate for private investment, both domestic and foreign, by channeling resources increasingly through Egypt's private sector, and encouraging reliance on free-market pricing; and (4) support the development of human resources through programs in health, nutrition, population, education and training.

Economic growth has declined substantially from the high levels of the previous decade. Real GDP rose an estimated 4 per cent in the past two years, 1984 and 1985--half of its 9-10 per cent levels in the mid 1970s. The impressive growth rate of the earlier decade was attributable to growth in oil production, oil exports, higher petroleum prices and remittances from Egyptian workers abroad. The soft world oil market and a continuing high level of government deficits have created severe balance of payments problems with a rising debt service

ratio. Payments on Egypt's civilian debt amount to 27 per cent of foreign exchange receipts. Including payments on the FMS debt, the ratio increases to 32 per cent.

The government is aware of the consequences of its balance of payments deficits and has taken corrective measures, but has yet to implement a comprehensive program to channel additional resources from consumption to the export sector. Domestic prices for energy are still far below world levels, encouraging domestic consumption of potential exports. The remedial measures taken so far are only a start and, by themselves, are unlikely to significantly redress structural imbalances. These imbalances inhibit the economy from fully exploiting its development potential.

Morocco

The Morocco request is for $18 million DA, $40 million Title I, $4.2 million Title II, and $20 million ESF. The program focuses on five paramount and integrated objectives: macroeconomic policy reform, increasing economic growth, increasing food supply, reducing population growth and improving primary health care, and improving management of energy and natural resources.

Concessional assistance helps address the overriding concern confronting the Moroccan economy, its heavy debt-servicing requirements and its need for structural reform. Severe balance of payments difficulties have necessitated debt rescheduling. Debt relief totaled $1.1 billion in 1985, and is expected to amount to $1.7 billion in 1986 and $1.2 billion in 1987. In the absence of debt relief, the debt service ratio would have been 63 per cent in 1985. Also, gross external debt

exceeds 100 per cent of GDP and foreign exchange reserves have all but evaporated. Fiscal and monetary restraints have taken their toll on growth, which dropped below 3 per cent in both 1983 and 1984. Given rapid population growth, real income per capita has declined since 1981. Real growth was expected to be a little more than 4 per cent in 1985, thanks to a good cereals harvest, increased tourism, and rising manufacturing exports. Resumption of rapid growth, however, must await an easing of the country's acute debt servicing problems.

A $210 million IMF Stand-by Arrangement was negotiated in 1985. The Arrangement is supporting the country's comprehensive structural adjustment program. The primary thrust of the program is transition from an inward-looking economy in which the state was the engine of growth to an outward-oriented economy relying on private initiative and market forces.

A.I.D. is modifying its assistance portfolio to concentrate resources in ways which support policy reform and Moroccan efforts aimed at stimulating the private sector and export promotion.

To increase the country's capability to feed itself and to reduce the current deficit in food grains, A.I.D. will combine Development Assistance, P.L. 480 and ESF resources in a concerted effort to bring about increased domestic production of cereals through technology transfer, training, credit, institutional development and policy change.

Rapid population growth exacerbates the chronic food deficit and makes the achievement of all development objectives problematic. With strong A.I.D. support, the Moroccan population strategy focuses on reducing the birth rate and

infant and child mortality by the extension of family planning and primary health care services. Key project interventions strengthen the managerial capacity of the Ministry of Public Health to furnish family planning and primary health services on a nationwide scale.

As more that 45 per cent of Morocco's foreign exchange earnings are spent on energy imports, A.I.D's strategy seeks to alleviate the heavy dependence on imported oil by strengthening the Ministry of Energy and Mines and hastening the development of domestic conventional and renewable energy resources.

Yemen Arab Republic

We are requesting $26 million DA and $5 million Title I for North Yemen. Our objectives are: (1) to improve and expand institutional infrastructure in agriculture with emphasis on planning, horticulture, poultry, irrigation, and agricultural education; and (2) to provide participant training to substantial numbers of Yemeni in fields essential to national development.

The real GDP growth rate declined from 9.6 per cent in 1982 to 2.4 per cent in 1984 due to weak performance in all but the construction, trade and private sectors. During 1984, agriculture was particularly hard hit, with growth considerably under 2 per cent due primarily to drought and earthquakes. Yemen's balance of payments deficit widened to $145 million through the first nine months of 1985. The remittance level fell by $121 million to $738 million for the first nine months and the downturn is expected to continue. By September 30, 1985, reserves stood at $298 million, enough to cover 2.4 months of imports. Reserves have been declining slowly. Debt

service remains low--approximately 4 per cent of current account receipts.

In FY 1987, we plan to provide funds for ongoing activities including:

-- agricultural development, focusing on training and institution building, increasing poultry and horticultural productivity, and on-farm water use;
-- training;
-- rural water and child survival; and
-- P.L. 480 Title I to meet grain import requirements.

Tunisia

The program requested, $20 million ESF and $5 million Title I, will continue to support agricultural and rural development, scholarships and technical training, development of the private sector, and strengthening of key Tunisian development institutions.

Tunisia achieved significant growth during the first half of the 1980s. However, the next few years do not bode well. Tunisia's recent economic performance was hurt by: (a) Libya's decision to expel some 30,000 Tunisian expatriates and reneging on most pending payments to Tunisia; (b) the dramatic decline in the price of oil; (c) the declining production of oil and phosphates; and (d) the deeply rooted structural imbalances undermining the competitiveness of the economy. Tunisia will encounter considerable difficulty in the year ahead as it simultaneously services its external debt, narrows its current account deficit, reduces its budget deficit, absorbs growth in the labor force, and eliminates the worst public sector inefficiencies.

In FY 1987 we will continue to work with the Government on a range of issues. The Supervised Agricultural Credit project and its successor, Credit II, aim to create a self-sufficient credit institution capable of providing credit to farmers and efficiently managing a loan portfolio. This will help reduce the drain on the budget and provide a forum for policy dialogue on the rationalization of interest rates.

The P.L. 480 Title I program is an integral part of A.I.D.'s agricultural strategy in Tunisia, permitting us to pursue with the GOT policies designed to increase cost-effective agricultural investment in rain-fed areas, and stimulate private sector participation in agriculture related activities, e.g., cost sharing by farmers for infrastructure; price incentives for private fertilizer dealers; increased funding for credit from private sources. A.I.D. will also continue to support a Private Sector Development Project to encourage small and medium scale indigenous entrepreneurs, and to promote greater U.S. investment.

Oman

The ESF request in the amount of $18.8 million for Oman will help develop the non-oil sectors of the economy, particularly fisheries, promote transfer of U.S. technology, encourage the responsible use of limited water resources and a sound approach to wastewater management, and develop human resources through undergraduate and graduate training, especially in the United States.

Oman's economy remains highly dependent on the oil sector, which accounts for nearly half of GDP. The decline in world oil prices will likely cause Oman's modernization effort to be

implemented at a more modest pace, but more within its technical and social absorptive capacity. At the present time, economic policy makers are taking a prudent approach; government expenditures were recently reduced by 10 per cent and the currency was devalued. Substantial long-term efforts will be required to achieve the goal of decreased oil dependency, given the lack of trained Omani manpower and arable land and water for agricultural development. A.I.D. provides long-term support to the government's modernization and diversification programs.

Jordan

A portion of the FY 1987 request of $18 million in ESF will be used to continue support for government efforts to identify and exploit Jordan's water resources. Technology transfer and institution building will be stressed along with training for employees of the Jordan Water Authority. Funds will also be used for an ongoing agricultural project and a new Town and Village Enterprise Development project. In education, graduate level training will be provided for promising Jordanians. The Commodity Import Program and one or more projects to be identified will be used to stimulate both private and public sector activity. These will be funded from the last tranche of the $250 million 1985 supplemental appropriation.

Real economic growth in Jordan, which averaged 11.7 per cent annually between 1975 and 1981, slowed down to an estimated rate of less than 5 per cent in 1985. This diminished performance reflects in part the retrenchment policies correctly adopted by the government in response to external factors: significantly reduced grants from Arab League oil producers; a reduction in Jordanian workers' remittances from

the Gulf states; and sluggish export performance. The sectors most affected by this economic slowdown have been mining, manufacturing, trade and certain services. Jordan's balance of payments has come under pressure; foreign exchange reserves now cover only six weeks of imports, down from seven months in 1983.

Lebanon

The $2 million requested for Lebanon will be used largely for short-term emergency relief extended through private voluntary agencies, including provision of food, shelter, medical services and supplies, and for some rehabilitation activities.

The unsettled security situation in Lebanon has had a devastating impact on economic and social conditions. Fragmentary data indicate that output is less than one half of pre-1974 levels. Economic activity continues to decline in parallel with deteriorating security conditions. Disruptions in domestic production and marketing channels have led to heavy reliance on imports and clandestine trading activities. The government has suffered severe revenue losses, since much of this trade is conducted outside of government controlled areas, while the government's expenditure levels have increased. Reliance on deficit financing has increased inflationary pressures to a point where inflation is a major problem. Present reconstruction efforts have been scaled down to match the limited resources available to the government and the restrictions placed upon these efforts by the security situation. While domestic economic conditions are bleak and the outlook somber, plans are in place and potential external support is available to begin reconstruction once the political and security situation stabilizes.

Regionally Funded Programs

Two additional programs in the Middle East area are funded under the ANE Regional account. The Regional Cooperation program, for which $5.8 million ESF is requested, funds activities to strengthen the peace process and increase mutual understanding between Israel and its Arab neighbors, especially Egypt. Reduction in funding for the Regional Cooperation program in FY 1986 ruled out any new program starts. Funding in FY 1987 at the requested level should bring the ongoing projects back to their originally anticipated levels and permit consideration of new cooperative projects in health and agriculture involving Israeli and Egyptian scientists.

For the West Bank and Gaza, $18 million in ESF is requested for projects to improve the living and employment conditions of Palestinians residing in those areas. Funding will be provided to the six U.S. organizations currently working in the West Bank and Gaza for projects in health, water and sanitation, agriculture, vocational and higher education and construction of schools, roads and markets. Funding will also be provided to stimulate private sector economic development. Also requested is $1.8 million in Title II.

EUROPE

Bilateral programs in Turkey, Portugal, Spain, Cyprus, and Northern Ireland/Ireland are also included in this request. They total $245 million in ESF, excluding Ireland, and are predominantly keyed to our security interests.

Turkey

The $150 million ESF request will continue support for Turkey's

economic stabilization program. Turkey is expected to continue to pursue policies that encourage development of the private sector.

In comparison to a robust 5.8 per cent in 1984, real growth in Turkey was down in 1985 to roughly 3.6 per cent. The wheat crop was not extraordinary and there was a slowdown in the growth of industrial output. The balance of payments continued to improve in 1985; the current account deficit dropped under $1 billion--1.9 per cent of GNP. The merchandise trade balance declined by $240 million; exports were up 12 per cent and imports rose only 5 per cent. In addition to continued export expansion, tourism was buoyant. On the other hand, some debt-servicing difficulties persist.

Turkish economic prospects hinge critically on structural adjustment in line with a successful IMF stabilization program. The government has been aggressively implementing a major economic structural reform program, providing for an enhanced role for the private sector and the use of market forces as opposed to regulation. Inflation, once at triple digit levels, has been brought down considerably, although it remains high. While much of the reform program remains on track, budget deficits have been monetized, a development that could lead to a reintensification of inflationary pressures.

Portugal

We are requesting $80 million in ESF as a cash transfer to the Government of Portugal.

The rapid growth of the Portugese economy has slowed from its high point at the beginning of the 1980s. GDP has shown no

growth in the past two years, and only a modest improvement is expected this year. Unemployment (at 10 per cent of the labor force) and idle industrial capacity remain high. Nevertheless, there are some signs that the government is loosening its tight fiscal and monetary policy.

In the past, expansionary economic policies have led to severe balance of payments deficits and excessive external indebtedness. Total external debt is two-thirds of GDP and the debt service ratio was 36 per cent in 1984. Under the government's stabilization efforts, inflation dropped 20 per cent in 1985. High government deficits and inefficiently managed publicly owned industries are the main causes of persistent inflation. With the entry of Portugal into the Common Market, a more comprehensive reform program is needed to achieve increased productivity in the agricultural and industrial sectors, thereby permitting Portugese exports to compete in the larger European market.

U.S. economic assistance is provided in the context of an agreement which permits U.S. use of bases in the Azores and space tracking facilities in mainland Portugal. The U.S. promised its best efforts to providing such assistance throughout the life of the agreement which runs through 1991. The Government of Portugal has used this economic assistance for (1) developmental needs in the Azores--one of the poorest regions of Portugal; and (2) as an endowment for the Luso-American Development Foundation (LADF), a private Portuguese foundation intended to build upon the developmental programs initiated by A.I.D.. The LADF formally came into existence in late 1985 and is just beginning to make grants. Its primary interest is private sector activities.

We expect that the Government of Portugal will continue to use future economic assistance in these ways.

Spain

ESF in the amount of $12 million is requested for Spain, to fund scientific, technical, educational, and cultural exchange programs carried out through the Department of State and U.S.I.A.

Cyprus

The $3 million ESF requested for Cyprus will continue support for programs fostering intercommunal cooperation.

The economy in the Greek Cypriot south, with 80 percent of the island's population, is performing well. It has high growth, practically full employment, low inflaction and per capita income approaching $4,000. Economic development has been slower in the Turkish Cypriot north. GNP per capita is estimated at under $2,000 a year. Unemployment is higher and living standards lower than those in the south.

Northern Ireland and Ireland

An FY 1986 ESF supplemental appropriation of $20 million and $20 million of ESF funds for FY 1987 are being requested as U.S. contributions to the proposed International Fund in support of the Anglo-Irish Agreement on Northern Ireland. In addition to these two $20 million contributions, we intend to make available to assist the development objectives of the fund at least $30 million in each year from existing U.S. Government investment, trade promotion, and guarantee mechanisms. In FY 1986, these will include up to $20 million in Housing

Guarantees and as yet unspecified amounts from OPIC, the Export-Import Bank's normal guarantee and insurance programs, the Trade and Development Program, and A.I.D.'s Private Sector Revolving Loan Fund. These amounts are part of an envisioned $250 million total U.S. assistance program contributing to the Fund and to parallel development activities over the next five years.

Since the new Fund has not yet been established, and we are involved in discussions on its operations with the British and Irish Governments, we cannot be specific at this time on projects to be carried out. We will of course be reporting periodically to the Congress on Fund objectives and activities.

ANE BUREAU MANAGEMENT INITIATIVES

Reorganization

In May 1985, AID's Bureau for Asia and Bureau for the Near East merged into a single unit, the Asia and Near East Bureau (ANE). The initial job of combining two organizations with different operating systems, program emphases, strengths, problems, and staff has been substantially accomplished.

The reorganization with accompanying staff reductions has increased the need for efficiency measures, such as expanded use of automation, centralization of similar functions, integrated technical support, and added delegations to the field, in order to make the best use of the available workforce.

Evaluation and Financial Management

The merger of the former Asia and Near East Bureaus presented a unique opportunity to bring together the best evaluation

features of both bureaus. Central to each bureau was the use of evaluation to support management decision-making. This will continue as a major focus in the ANE Bureau.

With regard to financial management concerns, all Asia and Near East Bureau missions are currently in the process of submitting annual updates to a document describing "Mission Financing Policy and Procedures" to the Washington headquarters. These documents are part of a continuing review process which will ensure that all new project proposals submitted for approval include realistic implementation and financing plans.

The Bureau has conducted "vulnerability assessments" of field missions and also has improved audit liaison procedures. This effort has resulted in a reduction of open audit recommendations during the past year.

CONCLUSION

I appreciate the opportunity to discuss A.I.D.'s program in the Asia and Near East region. I look forward to answering your questions.

PREPARED STATEMENT OF DWIGHT A. INK

ASSISTANT ADMINISTRATOR
BUREAU FOR LATIN AMERICA AND THE CARIBBEAN

Mr. Chairman, I am glad to have the opportunity to appear before this Subcommittee to testify on our proposed economic assistance program for the Latin American and Caribbean (LAC) region.

This program is designed within the broader context of U.S. political, economic, and strategic interests in the

Western hemisphere. Our citizens have a broader stake in a stable hemisphere than most Americans realize. President Reagan clearly recognized this stake early in his first Administration by proposing a major trade, investment, and economic assistance effort which we know as the Caribbean Basin Initiative (CBI). Both the Administration and the Congress have supported the recommendations of the National Bipartisan Commission on Central America (NBCCA) for even greater levels of assistance to this group of countries in the face of the economic and political crises threatening them. This Subcommittee was particularly instrumental in enabling us to respond to deteriorating economic conditions in the Andean countries through a deobligation-reobligation authority, and we are grateful for that support.

I can report to you that we have made significant progress toward some very important objectives of our program. But progress in other areas has been less than we had hoped for. The economic and political obstacles to recovery remain formidable, and the countries of the LAC region need our continued strong support to assist them in their efforts.

PROGRESS AND OBSTACLES: AN OVERVIEW

The Latin American and Caribbean region as a whole made strong progress during 1985 on the political front, and modest progress in most economic areas. Those trends appear to be continuing thus far in 1986, although data are still very limited. Open and fair elections in a half dozen countries have helped strengthen democratic processes and institutions throughout the region. In Haiti, growing demands for popular participation in political processes, as well as economic stresses, led to the fall of a political dynasty whose repressive rule had lasted nearly 30 years.

On the economic front, a number of countries made good progress toward economic stabilization and implementation of market-based policy reforms designed to stimulate private-sector-led economic growth. With the encouragement and support of A.I.D., many countries also took measures to mitigate the effects of the economic crisis on low-income groups and to ensure that the benefits of future economic growth would be broad-based. Both A.I.D. and the governments of many Latin American and Caribbean countries took a number of steps to improve program management so that scarce budget resources could be used more efficiently in support of development objectives. This is an area requiring more sustained vigilance than in the past, and I will report below what we have been doing and plan to do to address this need.

Despite this general progress, there have been some disappointments and shortfalls. Institutional change is a long-term process, and many of the region's institutions are fragile. Guerrilla violence has not ended, and narcotics trafficking remains a major destructive force in the lives of the region's citizens and of our own. Serious economic problems remain, and full recovery will require several more years of sustained effort on the part of the individual countries, as well as substantial foreign assistance. External factors will continue to have a major impact on conditions in the region, and progress toward recovery is likely to remain uneven.

Among the external factors inhibiting economic recovery are continued low prices for the region's traditional exports, except for coffee; growing protectionism in some industrial countries which could thwart export-led growth strategies; heavy debt servicing requirements, notwithstanding the recent

decline in world interest rates; and disappointing levels of new public and private international capital flows.

Internally, most countries in the region still suffer from the high cost of public sector operations. Some ministries are overstaffed, many parastatal enterprises are inefficient, and subsidies which often benefit the rich more than the poor claim too many budgetary resources. Government price controls discourage private enterprise and divert resources to relatively low-productivity uses. The heavy cost burden of the public sector in many countries limits the resources available for economic recovery.

A.I.D.'s effectiveness in promoting long-term development has been limited by substantial shortfalls from proposed levels of assistance during Fiscal Year 1986. In several cases, notably Guatemala and Bolivia, budget constraints have diminished A.I.D.'s ability to support efforts by new governments to take major economic reforms. We may likewise be constrained in our ability to respond to the new situation in Haiti. In other countries, required cutbacks in the level of assistance have made implementation of stabilization and development programs more difficult. As you know, the Congressional earmarks for FY 1986 resulted in a disproportionately large portion of the reductions being applied to Latin America and the Caribbean.

In Central America, for a series of reasons mentioned above, achievement of some of the goals of the NBCCA will take longer than originally anticipated.

ECONOMIC RECOVERY: PROGRESS AND OBSTACLES

For the LAC region as a whole, including countries with

which A.I.D. does not have bilateral programs, economic recovery got under way in 1984. The regional GDP that year grew by 3.2%, or 0.8% per capita, thus reversing the 10% decline in per capita GDP over the three previous years. This recovery was not distributed uniformly, however, because despite this reversal in the regional trend, a majority of individual LAC countries experienced a further decline in per capita GDP in 1984. For the key sub-region of Central America, the recovery during 1984 was slower than the LAC average, with aggregate GDP (excluding Nicaragua) rising by 1.4% and per capita GDP falling by 1.2%.

During 1985 the estimated GDP growth rate for the LAC region fell slightly to 2.8%, or 0.5% per capita, while for Central America GDP growth appears to have been only about 0.5%, or a decline of 2.1% in per capita terms. Recovery in Central America continues to be held back by unsettled political and security conditions, including continued violence, and by the need for additional policy reforms in most countries. In addition, Central America -- as well as the rest of the LAC region -- was affected adversely by the slowdown in the world economy in 1985.

External debt burdens in the LAC region remained heavy during 1985, despite lower interest rates, and prompted growing calls for unconventional forms of debt relief. The slowdown in the growth of the industrial economies kept prices of the region's major commodity exports generally low (though coffee prices rose late in the year) and made it more difficult for the LAC countries to break into new markets with nontraditional export products. Falling petroleum prices provided some relief to oil-importing countries, but placed strains on the region's oil exporters. New public and private international capital flows were inadequate, prompting Secretary of the Treasury

Baker, at the joint annual meeting of the International Monetary Fund (IMF) and the World Bank in October 1985, to call for substantial increases in both types of flows. Unless such increases materialize, the economic performance of the LAC region in 1986 is not likely to be much better than it was in 1985, except to the extent made possible by higher coffee prices and further declines in world interest rates. Because the rise in coffee prices was due primarily to weather conditions in Brazil, however, increased export earnings from coffee may be only a one-year bonus. The sharp decline in petroleum prices in the last few months will have a mixed effect, with importing countries benefiting, but exporting countries facing significant declines in foreign exchange earnings.

SOCIAL AND POLITICAL CONCERNS

The economic crisis continued to cause serious social and political strains during 1985, in part because public tolerance wore thin for austerity measures, whether undertaken voluntarily or involuntarily as countries ran low on financial resources. Bolivia's previous government, paralyzed as the economy unraveled, moved elections up by a full year, thus probably avoiding a widely predicted coup. A similar policy paralysis afflicted the outgoing government of Guatemala. Panama's president resigned under pressure, partly because of strong opposition to a stabilization and recovery program he was unable to implement. The failure of previous governments in these countries to implement sound economic programs has only aggravated the underlying structural problems that need to be resolved. This failure has greatly complicated the task of the new Bolivian administration, which has moved quickly to implement a bold economic program, and that of the new Guatemalan government, which has also begun to take decisive action.

A different response to the economic crisis was made by the new government of Peru, which announced that it would limit its debt servicing to no more than 10% of its export earnings so that the remainder of its foreign exchange may be applied to imports needed to help reverse the decline in living standards. It remains to be seen whether its other economic policies can achieve this reversal.

In Jamaica, the continued deterioration of the world bauxite market swamped the positive effects of the government's stabilization program, and the collapse of Jamaica's incipient recovery contributed to some civil disturbances early in 1985. Dissatisfaction over economic conditions also played a role in the disturbances which toppled the Duvalier regime in Haiti in February 1986.

The countries discussed above, though different in many respects, share two common characteristics. One is the growing public impatience with declining living standards, and the other is political difficulties faced by their governments in responding to economic problems by implementing sound, corrective economic measures required to lay the groundwork for economic recovery. It is in the U.S. interest that we help the LAC countries find creative, viable solutions to their problems so that hostile forces will not exploit them in ways that are harmful to their security and ours. Increased U.S. assistance in these and other countries with similar problems can help make the necessary economic adjustments less painful.

Nevertheless, if our assistance is to have a major, lasting impact, the LAC countries themselves must play the leading role in bringing about an economic recovery by implementing appropriate policy reforms, particularly to encourage private-sector activity. We continue to see progress

along these lines, but the pace of reform in most countries needs to be accelerated so that rapid and sustained economic recovery can proceed before the stress on elected governments threatens their continued survival.

A year ago we identified a number of key socioeconomic development problems that needed to be addressed in order to achieve a strong, broad-based recovery. Financial disequilibrium, the major short-term problem, has so far been addressed satisfactorily in only a small number of LAC countries. The other problems -- including unemployment and underemployment, external debt burdens, structural barriers to export diversification, and rapid population growth -- are long-term in nature. Progress toward solving them will depend not only on a favorable international economic environment and policy reforms in the LAC countries themselves, but also on the amount of public and private capital flowing into the LAC region. A.I.D.'s focus on spreading the benefits of growth will help ensure that corrective measures have maximum social impact.

U.S. INTERESTS

The United States has major economic interests in the LAC region, whose geographic proximity makes it of key importance to our security. Economically, the LAC countries constitute a major market for our exports. In 1981 they bought $42.1 billion of our products, or 18% of our total exports. But the foreign exchange shortages associated with the economic crisis limited LAC purchases of U.S. goods to $25.7 billion in 1983, costing the United States a large number of jobs in the export sector. Although U.S. exports to the region rose to $29.7 billion in 1984, and an estimated $31.4 billion in 1985, this

is still substantially below the 1981 peak, particularly after adjusting for inflation, as seen in the following table:

U.S. Exports to LAC Countries, 1981-1985
(billions of dollars)

	Current Prices	1981 Dollars
1981	42.1	42.1
1982	33.6	31.6
1983	25.7	23.3
1984	29.7	25.8
1985	31.4	26.4

There is considerable potential for expansion of U.S exports to the LAC area, thereby producing more jobs in the United States.

The United States also has significant investments in the LAC region, amounting in 1984 to $28.1 billion, or 52% of all U.S. direct investment in developing countries. The economic crisis in the region has lowered returns on this investment. It has also seriously threatened the financial position of many U.S. banks with loans to LAC countries which have been unable to keep current on debt servicing. Another major impact of the region's economic difficulties has been an increase in illegal migration to the United States. In addition, economic hardships have pushed more people into narcotics trafficking, which likewise has a significant impact on our society.

Our foremost strategic objective in the LAC region is the presence of stable, friendly, democratic governments which provide a climate in which our major security interests can be protected. These include access to petroleum, to other industrial raw materials, and to the unimpeded use of the sea lanes adjacent to North America and the Panama Canal. The region is also important to our efforts to stop the flow of illegal drugs into the United States, to curtail the operations of international terrorist groups, and to prevent the seizure of power by hostile forces. I am particularly concerned about the potential danger that funds from the extremely lucrative

trade in illegal drugs will support future terrorist activities throughout the Western Hemisphere, including the United States.

The LAC region is a major focus of our concern for improving respect for human rights and strengthening democratic institutions. The creation of eight newly independent nations in the Caribbean Basin since 1974 has heightened that concern, and has made it more important that we be able to collaborate with the countries of the region on issues arising in hemispheric and international organizations and meetings. We have also played an active role in encouraging and supporting the adoption of civilian, democratically elected governments in the region. The prolonged economic crisis in the LAC countries is a potential threat to the expansion and consolidation of democratic processes in a number of countries. Possible economic collapses in some of these countries could send large numbers of refugees fleeing to the United States and also could seriously affect our financial system.

Our economic assistance program seeks to help prevent this from happening by stimulating a private-sector-led economic recovery whose benefits will extend to the entire population, thus weakening the appeal of radical, undemocratic elements, including the guerrilla groups now seeking to destabilize the governments of a number of LAC countries.

A.I.D.'s STRATEGY AND GOALS

A.I.D.'s strategy for addressing the LAC region's development problems focuses on four broad areas: (1) short-term economic stabilization, (2) basic structural reforms leading to sustained economic growth, (3) a wider sharing of the benefits of growth, and (4) the strengthening of democratic institutions and respect for human rights. As a

growth-with-equity strategy, it is largely targeted on the needs of less advantaged populations, particularly by emphasizing productive employment opportunities as well as greater access to health care, education, and social services. The strategy stresses the role of the private sector as the main engine of development, but it also seeks to improve an important but limited role of the public sector by encouraging policy reforms which increase economic and political freedoms and management improvements which reduce the costs of public services.

IMPLEMENTATION PROGRESS

1. Stabilization. Economic stabilization -- reducing fiscal and balance-of-payments deficits and bringing inflationary pressures under control -- is not an end in itself but rather an essential requirement for private-investment-led growth. A.I.D. has encouraged and underwritten stabilization efforts through programs supported by Economic Support Fund (ESF) resources, which help cushion declines in economic activity while countries take steps to lay the groundwork for economic recovery.

A key objective of our support for stabilization efforts is that the LAC countries be able to manage their external sectors on a current basis by eliminating arrearages and the need for further debt reschedulings and by restoring government fiscal equilibrium. Countries which have made good progress toward meeting this objective include Belize, Costa Rica, the Dominican Republic, and Ecuador. Elsewhere the record was mixed last year, with some countries making slow progress while others allowed their fiscal and balance-of-payments deficits to become worse, thus making stabilization all the more difficult to achieve.

Some LAC countries will probably need more than another year to complete their stabilization objectives. The new Bolivian government, for example, despite having implemented a bold and very promising stabilization program, and having reduced the annual inflation rate from about 20,000% to 30%-40% in less than one year, is not likely to be able to complete the stabilization process in 1986, given the extent of the economic deterioration that occurred under its predecessor. In other countries, however, completion of the stabilization process during 1986, or at least 1987, is a feasible goal provided that the necessary policy reforms are undertaken. Significant amounts of stabilization assistance in FY 1987 will be necessary to prevent a further general decline in living standards. If this assistance is not forthcoming, the political stresses which result from sustained austerity measures are likely to lead to destablizing relaxation or reversal of stabilization measures.

2. Long-Term Growth. Structural reforms are needed in most LAC countries to achieve sustained economic growth within an international environment that differs sharply from that of the 1960s and 1970s. Achievement of rapid and sustained growth will depend largely on the success of countries in reorienting their development strategies away from import substitution and toward exports to nonregional markets.

Our economists advise me that a substantial body of research has shown that a strategy with such an outward orientation will result not only in faster economic growth but also in more job creation and a more equitable pattern of growth by encouraging labor-intensive patterns of development. However, I should stress that it takes time for these policies to produce meaningful results.

Progress toward export diversification was strong during 1984, although this is also a process that takes time to have a meaningful impact on the economy. The A.I.D.-assisted countries benefiting from President Reagan's Caribbean Basin Initiative (CBI), for example, increased their exports of manufactured goods to the United States by 27%. Growth during 1985 slowed to 13%, due in large part to the slowdown of the U.S. economy, but the CBI countries still performed better than the rest of Latin America. Moreover, countries which had made good progress in implementing structural reforms -- including Belize, Costa Rica, the Dominican Republic, and Jamaica -- continued to show strong growth in exports to the U.S. market in 1985. The following table shows that total manufactured exports to the United States from A.I.D.-assisted CBI beneficiaries exceeded $1.5 billion in 1985:

Exports of Manufactures to the United States
by A.I.D.-Assisted CBI Beneficiaries
(millions of dollars)

	1983	1984	1985	% Increase, 1983-85
Central America	289	372	439	52.2%
E. Caribbean	212	270	239	12.7%
Other Caribbean	568	717	862	51.6%
Total	1,069	1,359	1,540	44.1%

An ongoing LAC Bureau review of A.I.D.'s role in supporting the CBI is finding that the Initiative has increased nontraditional exports from the region and investment in targeted growth areas. A.I.D. has authorized more than 90 projects and some $700 million in support of the CBI during the FY 1982-85 period. Although it is difficult to determine precise linkages between the CBI and new exports and investments, preliminary data suggest that more than 260 new export-oriented investments have been stimulated in the Basin, with 210 of these creating more than 30,000 new jobs. Some of

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these jobs can be linked directly with the CBI, but the really significant impact of the CBI will occur over the long run.

One result of our review of the implementation of the CBI is that A.I.D. will further strengthen its collaborative relationship with other Federal agencies in pursuit of CBI objectives.

The main elements of our strategy for achieving export-led growth and the associated increases in income and employment are:

-- continuing our dialogue with cooperating countries on needed policy reforms and using our assistance to encourage and support appropriate structural adjustment;

-- supporting the greater commercialization of agriculture, the sector employing the greatest number of people, particularly through diversification and by improving access by small farmers to land, credit, and other key production inputs;

-- assisting countries in preserving, enhancing, and developing their natural resource base, including energy resources, thus increasing the long-run productive potential of their agricultural and industrial sectors;

-- increasing the availability of production credit for agriculture and industry, particularly small industry, and for exporting;

-- providing technical assistance and training for small business operators;

-- assisting investment and export promotion and strengthening private-sector organizations;

-- assisting in the development of free zones, industrial parks, and other mechanisms which simplify infrastructure and administrative problems facing private enterpreneurs; and

-- financing infrastructure construction and improvements, especially for stimulating small-farmer production.

3. Spreading the Benefits of Growth. An export-oriented growth strategy can promote more equitable development through job creation and the generation of revenues needed to extend the coverage of social services. Nevertheless, targeted programs also are needed to ensure that the benefits of growth will be widespread. Such programs include the use of cost-recovery measures in the provision of public services and incentives for greater private-sector activities in such fields as health and family planning services. More efficient operation of public services can also help spread their coverage, a factor which is particularly important in meeting tight budgets. Opportunities for small farmers and other poor rural families can be increased through greater access to land, credit, and other productive resources and the elimination of price controls and other disincentives to production.

Under the proposed funding levels, A.I.D. will continue to promote a more equitable pattern of development by supporting programs designed to:

-- provide access to primary education for at least 90% of all school-age children, male and female, in those A.I.D.-assisted countries where this has not been achieved (Haiti, Bolivia, El Salvador, and Guatemala);

-- expand access to family planning information, particularly through private institutions, to help bring about a reduction of the regional population growth rate from the 1982 level of 2.3% to 1.9% by 1988;

-- improve the access of poor rural families to land through support for settlement programs, legal reforms to provide secure land titles, and financing for land purchases;

-- increase the availability of credit and technical assistance to small business operators;

-- provide better housing for low- and moderate-income families through technical assistance, previously authorized Housing Guaranty loans, and other activities;

-- assist displaced persons through provision of health services, educational opportunities, and productive employment; and

-- support narcotics awareness programs in order to help combat the insidious effects of narcotics production and use on the quality of life in the region and in the United States, and to reduce the threat that narcotics trafficking will begin to fund terrorist groups.

4. Democratic Institutions and Human Rights. Economic growth will best benefit the citizens of Latin America and the Caribbean and support U.S. interests in the region if it occurs in an environment in which governments permit their people to participate freely in local and national political processes; to form labor unions, cooperatives, and other voluntary

organizations; and to have recourse to a judicial system that will administer justice fairly and speedily. Although the U.S. Government cannot dictate to other governments how they should structure their political institutions and processes, we can provide our moral and financial support to those countries upholding democratic institutions and respecting human rights. A key element in U.S. economic assistance decisions in each LAC country will be the degree of commitment of that country to free elections, independence of the judiciary, and respect for individual rights.

We are encouraged by the progress along these lines made in the LAC region. During 1985 presidential elections were held in Bolivia, Peru, Honduras, and Guatemala, and parlimentary elections were held in Dominica. Costa Rica held presidential elections in early 1986. There is widespread agreement that the electoral processes were in all cases open and fair. Progress toward democratization and an improved human rights environment also occurred in most other A.I.D.-assisted countries. In Haiti the government's oppressive policies sparked civil unrest that led to its downfall in February 1986, and the provisional government, although not particularly strong, has announced that it will provide a framework for political parties and will schedule the first presidential elections in nearly 30 years.

A.I.D. will continue seeking to strengthen the administration of justice through technical assistance, training, and material support for court systems, criminal investigative agencies, public prosecutors and defenders, justice ministries, law schools, and bar associations. A.I.D. will also continue providing assistance to improve the administration of elections. In addition, A.I.D. activities

with a large number of private and voluntary agencies will support the development of democratic institutions and processes by providing assistance to labor unions, marketing and credit cooperatives, women's organizations, and other participatory groups.

The process of democratization in the LAC region is being further supported by a major new training initiative, the Caribbean and Latin American Scholarship Program (CLASP), which will provide both short-term and long-term scholarships for study in the United States and in the region itself to approximately 10,000 individuals. CLASP consists of three separate projects, one for Central America, one for the Caribbean and South America, and a new Caribbean Training Initiative. By far the largest is the Central American Peace Scholarships project (CAPS) under which approximately 7,063 Peace Scholars will be trained between FY 1985 and FY 1989 in response to the recommendation of the NBCCA that more Central Americans be provided training opportunities in the United States. An additional 3,000 or so participants will be funded under United States Information Agency (USIA) programs, bringing the total to more than 10,000.

Training under scholarship programs will focus on priority economic, social, and political development needs, and will target disadvantaged groups who previously have lacked access to such training. First-year implementation of the CAPS project was very successful, with the project exceeding by 350 its target of 1,200 students trained during FY 1985. The new Caribbean project is designed to triple the annual number of A.I.D.-supported scholarships in the Caribbean to approximately 1,500 by FY 1988. Participant training is regarded as one of the best investments we can make in the future stability of these countries.

IMPROVING MANAGEMENT

I would like to discuss briefly now our efforts to improve the management of our programs. In my confirmation hearings last October, I said that I strongly supported the efforts of A.I.D. Administrator McPherson and Deputy Administrator Morris in this regard. I would like to report to you what we have done in recent months in the LAC area. To improve the efficiency of our own activities and contribute to the necessary reduction in the U.S. budget deficit, A.I.D. has:

-- subjected proposed projects to more intensive review and taken steps to scale back expenditures in some areas;

-- clarified goals and objectives to better respond to the Agency's legislative mandate, our policies and priorities, and country strategic considerations, and to better link program and project activities to these goals and objectives;

-- established a management-by-objectives system to implement the management strategy outlined by the Administrator in his 1985 State of the Agency address and to respond to the concepts embodied in Section 621A of the Foreign Assistance Act. The first elements of this system are now largely in place, but a great deal of additional work will be required over the next year to make it fully effective;

-- strengthened project cost analysis, including the adoption of additional measures to analyze and reduce costs in the participant training program, with similar measures soon to be developed for the health program;

-- increased our stocktaking assessments of program progress or lack of progress;

-- delegated greater project approval authority to the field so that field managers can be more responsible and accountable for program and project design and implementation;

-- issued instructions to LAC Missions on rates of exchange to ensure that A.I.D. dollars are used in a way to achieve the maximum possible return on A.I.D.'s investment;

-- begun an effort to reduce the complexity of project design to decrease costs and to avoid overtaxing the technical and managerial resources of overseas missions and the governments with which they work, and

-- initiated an independent assessment of the LAC Bureau's implementation of A.I.D. procurement and contracting policies and procedures.

We also intend to:

-- reduce time-consuming reporting requirements for A.I.D. missions, thus freeing them to devote greater attention to program and project monitoring and accountability; and

-- place more emphasis on decreasing the long-term dependency of institutions on A.I.D. funding, including the phasing out of future institutional support of several organizations which have received A.I.D. funding over a period of years.

FY 1987 PROGRAM SUMMARY

In closing, Mr. Chairman, let me briefly summarize our program request for Fiscal Year 1987. For the Latin American

and Caribbean region as a whole, A.I.D. is requesting economic assistance totalling $1,662.7 million dollars, including:

-- $945.0 million in Economic Support Funds;
-- $472.3 million in Development Assistance; and
-- $245.4 million in P.L.-480 commodities.

By sub-region, the breakdown is:

-- Central America: $1,054.8 million, or 63%;
-- The Caribbean: $386.4 million, or 23%;
-- South America: $185.4 million, or 11%; and
-- Regional Programs: $36.1 million, or 2%.

Thank you.

Prepared Statement of N. C. Brady

Senior Assistant Administrator
for Science and Technology
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

Conditions in Africa during this past year again serve to empnasize the vital importance of new and adapted appropriate technologies which can generate development within a framework of sound country policies. Through past experience, A.I.D. is well aware that technological advances often require sustained, long-term research and development. Successful outcomes, such as the Green Revolution in Asia, justified the human and financial commitment they entailed. While we continue to pursue development of other needed technologies, we fully understand and consider the present economic concerns. To maximize the potential benefits of resources made available for development assistance, we take advantage of every opportunity to collaborate with other development assistance donors and

with private sector entities. We also concentrate on developing essential basic technologies which productively address the most urgent needs in the afflicted countries.

It is an unfortunate reality that the technologies of the green revolution -- which so remarkably increased agricultural production in Asia during the last 25 years -- have, so far, not worked in Africa. There are a number of reasons for this.

First, Africa has less hospitable physical environments and climates. Its tropical soils, which are primarily acid and infertile, present new and difficult ecological and management problems which have not yet been properly addressed. In the most critically affected arid region, south of the Sahara, the lack of both adequate water resources and improved crop varieties severely limits crop responsiveness to increased use of fertilizer, a technology which yielded one of the major breakthroughs of the green revolution in Asia.

Yet, not all of Africa's agricultural problems relate to limited natural resources. Inappropriately designed economic policies, weak institutions and a serious shortage of well-trained personnel -- from farmers to administrators and scientists -- all mitigate against increased agricultural production.

Africa is a continent which is also singularly afflicted by a great diversity of human and animal diseases. In terms of the human population: malaria, river blindness, sleeping sickness and other frequent and widespread infections; short lifespans; and nigh infant mortality all detract from efficient agricultural production. Animal diseases also reduce the production of food. One severe animal disease,

Trypanosomiasis, actually prevents the production of livestock in large areas of central Africa, limiting not only meat and milk production, but also the on-farm power these animals represent.

Other constraints on African agricultural production include outmoded farming systems and an absence of farmer-acceptable improved technologies. Traditional farming systems, such as slash-and-burn, worked well when the population of Africa was much smaller. Now, with much larger populations to feed, these systems are beginning to fail, causing reduced crop yields and soil erosion. The appropriate use of such systems depends on many fallow years between each few years of cultivation. Increasing populations which have no access to higher-yielding agricultural technologies or knowledge of improved management practices must cultivate more and more land to feed themselves, thus constantly reducing the already-shortened fallow period.

Because Africa's agricultural problems are severe and specific to that continent, technology transfer has been much less successful than in the other developing regions of Asia and Latin America. Clearly, African countries must be helped to establish a human and institutional research capacity through which their scientists can tailor internationally developed technologies to the specific needs of their local agricultural conditions.

Despite the acknowledged difficulties, some small progress has already been made in Africa. Superior varieties of sorghum, millet, cassava, dry beans, potatoes, sweet potatoes and lentils are beginning to appear. These improved varieties are more drought tolerant and notably resistant to insect pests and

disease and are, consequently, higher yielding. Finding such solutions is an enormous opportunity and challenge for agricultural scientists throughout the world.

In the area of rural health, in particular, we are working to solve three major problems. First, inadequate transfer and storage facilities, inaccessability of populations and very limited financial resources prevent effective distribution and use of existing vaccines. Because this situation is unlikely to change in the near future, we must adapt proven vaccines for use in Africa by making them heat stable, single dose and less expensive. Second, we must help the Africans build health systems that can sustain and update the immunization programs that are now being established. And third, we must help Africa control the debilitating and widespread diseases for which vaccines are not yet available.

Since 1974, at least 20 donors have supported a particularly successful program to control onchocerciasis (river blindness). Vector blackflies transmit this disease in fertile river valleys in many areas of Africa. In the past, large numbers of people living in the savannas of West Africa abandoned the fertile river valleys because of a prevalent, blinding form of the disease. Multidonor efforts to control the disease began operating in seven West African countries in 1974. The intensive program included larvicidal treatment of turbulent-water breeding sites from aircraft, epidemiological surveillance of the exposed populations, training of indigenous personnel to carry on the work, and ecological monitoring to protect the environment.

The 3 million children born since the program began remain uninfected and an estimated 27 thousand cases of blindness have

been prevented. The fertile river valleys which have lain fallow for decades are now being resettled both spontaneously and under the sponsorship of the governments of Benin, Burkina Faso, Ghana, Ivory Coast, Mali and Niger. The program is now being extended to previously untreated blackfly breeding sites in Guinea, Guinea-Bissau, western Mali, Senegal and Sierra Leone. We expect that by 1997 external-donor support for this regional program can be discontinued.

While solutions to Africa's critical agricultural and health problems are of global concern and help yield scientific and technological insights and innovations of universal value, A.I.D. also continues to address the major problems that impede development in other regions of the Third World. Through our efforts, progress is being made in a number of technologies which promise worldwide benefits.

A.I.D.'s Small Ruminant-Collaborative Research Support Project (CRSP) is carrying out research on a number of management, immunization, diagnostic, nutritional and reproductive technologies that have high potential for improving sheep and goat production, worldwide. Better management practices are already bringing one goat disease, caprine arthritis-encephalitis (CAE), under control and a rapid diagnostic test and new vaccine for another, contagious caprine pleuro-pneumonia (CCPP) will affect at least 48 million goats in West Africa and Asia.

A prolific breed of sheep has been identified by CRSP scientists in Morocco and they are working to preserve this valuable gene resource. With proper management and disease control, the improved animals are expected to more than triple the number of lambs produced per ewe. In that same country,

treatment of lambs with Selenium and Vitamin E has eliminated severe problems with white muscle disease. CRSP researchers in Peru have also developed an accurate diagnostic test and control for sheep pulmonary adenomatosis (SPA), a virus-induced lung tumor that is the single most important cause of adult sheep losses in that country.

The debilitating and often deadly malarial diseases are a worldwide concern and A.I.D.'s malaria research program moved forward in several important areas during this past year. Using genetic engineering techniques, A.I.D.-supported researchers have developed an anti-mosquito stage prototype vaccine against P. vivax, the most common form of human malaria. Another vaccine against. P. falciparum, human malaria's most deadly form, has been developed using synthetic peptide chemistry. In addition, researchers have isolated, cloned and successfully tested a number of antigens against the blood stage of the malaria parasite which is by far the most important component of future vaccines intended for use in malaria endemic areas. With the two prototype vaccines in hand, A.I.D.-funded researchers are now preparing for field trials. An approved set of vaccines against the four species of human malaria could be ready as early as 1992.

Because drug-resistant parasites are a rapidly growing problem in the prevention and treatment of malaria, scientists working in A.I.D.'s research program have developed simple new culture techniques to detect resistant parasites. Researchers have also used biotechnology techniques to identify malaria-carrying mosquitos. These techniques have been simplified and tested in more than a dozen LDCs and are already changing mosquito control programs in Pakistan and Brazil.

In the field of education, A.I.D.'s Radio Community Basic

Education project in the Dominican Republic has developed and tested affordable, acceptable interactive teaching methods and materials for broadcast in communities which have no access to regular primary education. Each community provides a classroom and a local teachers' aide, while radio does the teaching. To date, curricula for the first three school years have been used and the learning outcomes are as good as or, in most cases, better than those of pupils in conventional schools, at a fraction of the cost.

Under a cooperative agreement with A.I.D., the Agricultural Finance Department at Ohio State University (OSU) has researched experimental approaches to rural financial systems. Through this research, A.I.D. now recognizes that mobilization of rural savings and strengthening of financial systems are critical in creating stable institutions that can support investment and growth in developing countries. OSU's research demonstrated that traditional credit programs, involving subsidized interest rates, rapidly depleted available capital in rural financial systems and did not generate savings. In addition, small-scale farmers often had little or no access to formal savings or credit mechanisms and the limited available capital was usually loaned to more prosperous landholders.

The OSU research results indicate that correct approaches to creating and sustaining rural financial institutions include allowing interest rates to find the market level, using incentives to mobilize savings, and encouraging extension of healthy financial systems to rural areas. OSU has very successfully employed these approaches to rural financial system development in Honduras, the Dominican Republic, Bangladesh and Niger.

Access to quality family planning services is integral to other development efforts and will contribute greatly to successful outcomes in agricultural, health, and other interventions.

Recent A.I.D. support has helped lead to development of the NORPLANT^{R} contraceptive device, a five-year, progestin-only, low-dose implant. Assuming the rigidly controlled tests of NORPLANT^{R} prove this to be both safe and useable, it could become the most effective reversible contraceptive developed to date. Such technologies give couples acceptable methods to help determine family size and so contribute to reduced population growth rates.

Creation and adaptation of scientific and technological approaches to development are Agency-wide endeavors. Beyond its own programs, A.I.D.'s Bureau for Science and Technology (S&T) stands ready to extend technical assistance and scientific expertise to A.I.D. missions around the world. The missions, themselves, recognizing the importance of improved appropriate technologies, support their own science and technology endeavors, and also participate in centrally-funded S&T projects.

To continue our carefully-monitored efforts in FY 1987, the Bureau for Science and Technology is requesting just under $237 million ($236.85). A little over forty-eight percent ($114.30 million) of this amount is for population planning programs upon which the success of our other efforts depend. Just under twenty-six percent of the budget ($61.15 million) is requested for agricultural programs to help solve the still-enormous problems of hunger in Africa and elsewhere. The requests for health programs ($36.50 million) and child survival programs ($10.00 million), together about nineteen and one-half percent

of the total budget, are for very necessary programs that will bring us closer to solving the enormous health problems of the developing world. Smaller amounts are requested for education and human resources, the Economic Support Fund, and selected development activities, programs which effectively support our more major efforts.

While we are pleased to make note of our progress, the job has only just begun and the implications of success will be farreaching. As has become clear in the last few years, slow or stalled economic growth in the Third World has enormous consequences for the economy of the United States. Underdeveloped, poverty-stricken countries are poor customers for our industrial and agricultural products. While development assistance to the Third World is, first and foremost, a humanitarian effort in keeping with the American heritage, the economic benefits gained by our country should not be overlooked.

PREPARED STATEMENT OF R. T. ROLLIS, JR.

Assistant Administrator for Management

Agency for International Development

Mr. Chairman, I am here today to testify regarding the Operating Expense Budget of the Agency for International Development.

I fully realize the overall fiscal constraints under which this request is being considered. However, I want to emphasize the significance of operating expenses and the vital role such expenses play in relation to our program dollars. If we are to provide the oversight necessary to direct and manage our multi-billion dollar foreign assistance program, we must have an adequate operating expense budget. As you know, the budget for the current year, FY 1986, is actually lower in real terms than last year's budget. Only through the authorities provided by this committee, for which we are extremely grateful, that permit us to fund certain overseas local support costs with program dollars, were we able to avoid drastic cuts in our management capability and oversight.

In summary we are requesting $388.9 million in new budget authority for our FY 1987 Operating Expense Appropriation. This

represents an increase of $11.5 million over the total FY 1986 availabilities (including the $16.2 million in local costs support funded from program accounts in FY 1986). We are also requesting, as a separate line item, $21.7 million for our Office of Inspector General.

This FY 1987 request is the minimum necessary to resume funding the program-related costs of foreign service nationals and program related overseas travel costs from the operating expense account and to continue the various cost-saving programs which were undertaken to accommodate the limited funding of the past few years. I would like to take a few minutes later to outline some of these programs to you.

I must also emphasize that, although the FY 1987 staffing request of 4,825 workyears represents only a decline of 50 from the FY 1986 level, it completes a six-year reduction of over 1,000 workyears since 1981. I believe this reduction takes us down about as far as we can afford to go and still have confidence that we are providing an adequate degree of direction and oversight to our programs. It must be remembered that during this same six-year period we have assumed responsibility for three major new initiatives -- the Caribbean Basin Initiative, the Central America Initiative and the African Drought Initiative.

We have made this staff reduction by managing very carefully our attrition and using remaining staff as effectively as possible, placing them in the most needed positions for which they are qualified. Moreover, we have refused to go outside the Agency for hiring, unless absolutely necessary.

Over the past few years the Agency has entered into numerous efficiencies and productivity improvement programs which have permitted us to carry on the type of program which our foreign policy calls for within restricted budget levels. Some of these initiatives are:

Efficiencies through the use of automation

We have introduced automation facilities at 70 posts overseas. This includes minicomputers at larger posts, microcomputers for program and project design and a range of financial and tracking applications and standard word processing worldwide. Moreover we have begun the introduction of high-speed telecommunication links, shared with the Department of State to facilitate communications between Washington and overseas posts.

Some of the improvements can be quantified as new services available, while others can be seen only as increased productivity of existing services. The automation program has contributed to the Agency's ability to handle a significantly larger work load with a much smaller staff: from 1980 to 1985, the program budget has grown 79%, while the on-board staff has dropped 16%.

Furthermore, the widespread use of standard word processing has improved the quality of project documents at the same time it has helped the Agency to take an 18% reduction in clerical staff.

Computer-to-computer communications have enabled us to transmit large documents for approval between certain posts overseas and Washington in a few minutes as opposed to the 2-3 weeks often required to send the documents through the diplomatic pouch.

Standardized accounting systems overseas

Another important example is the introduction of the successful Mission Accounting and Control System (MACS). This system is installed at twelve posts covering programs in 44 benefiting countries. Sixteen additional locations are scheduled to be completed during FY 1986 and FY 1987 for a total coverage of 66 benefiting countries. MACS is an automated state-of-the-art accounting and management information system providing for improved data integrity, strengthened fiscal control and increased accuracy and timeliness of reports, thus improving managers' ability to exercise control over their project portfolios.

Improved Work Space Management

The Agency is consolidating its space holdings in Washington to reduce the number of separate buildings and thus co-locate (to the extent possible) the various bureaus and offices. Included in this effort is the modularization of space in the Main State Building which is permitting reductions in office size and, in turn, overall reduction in the A.I.D. office space index.

Improved Training for Project Implementers

Early in this administration we decided that project implementation in the field had not been given adequate priority by AID staff. We also decided that the staff responsible for project implementation needed to improve their project implementation skills. A project implementation training program was established with training courses conducted all over the world and in AID headquarters in Washington.

Cash Management

Over the years we have worked closely with the Treasury Department to establish realistic cash management initiatives which would result in interest savings to the U.S. Government. The fact that our Office of Financial Management has been recognized by both the Treasury Department and the President for its achievements in cash management is a testimony to our dedication and accomplishments in this area.

Let us now turn to the FY 1987 budget. At first glance it appears to be a fairly generous increase over the FY 1986 budget. However, a major share of the "increase" is due to the fact that $16.2 million for local cost support, which we funded from program accounts in FY 1986, will be paid out of OE in FY 1987. This leaves a very modest $11.5 million increase. I say "modest" in the realization that this is up from the FY 1986 figure, which as I have indicated was actually a decrease in real terms from the previous year.

This small increase will allow the Agency to cover the pay raises for Foreign National employees overseas and increased costs of F.I.C.A., Medicaid, and other benefit costs for U.S. direct hire employees ($6.4 million).

Another $3 million will be required to cover increased office and residential rents, security guard services, equipment and property maintenance contracts etc. in our overseas Missions.

The remainder of the increase ($2.1 million) is for a variety of items including payments to the Department of Defense for APO

mail services, payments to the Department of Labor for employee compensation claims, increased costs of equipment maintenance contracts in Washington and the like.

Foreign Affairs Administrative Support (FAAS)

We have begun actions to reduce our participation in the FAAS system by 25 percent. We have canvassed all of our posts overseas asking them to review their FAAS participation with a view to reducing it where possible. We have informed the Department of State of the reductions in our FAAS participation. We have also agreed with the Department to jointly study the administrative operations of a sampling of overseas missions in an effort to reduce FAAS costs for all agencies.

This has been a brief summary of the rationale behind the AID Operating Expense budget request for FY 1987. I will be happy to answer any questions you have regarding this budget request.

Prepared Statement of Julia Chang Bloch

ASSISTANT ADMINISTRATOR

BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE

A.I.D.

Thank you for inviting this testimony on A.I.D.'s request for programs of the Bureau for Food for Peace and Voluntary Assistance. For FY 1987, we are proposing $47.3 million for the FVA Bureau's Development Assistance-funded programs that support Private Voluntary Organizations and Food for Peace.

The major part of our request - $40.2 million - will fund the PVO grant program administered by the Office of Private and Voluntary Cooperation. This program emphasizes support for field projects of PVOs with proven track records in development. Its largest single component finances the Agency's competitive Matching Grants, through which PVOs match A.I.D. resources on at least a dollar-for-dollar basis in carrying out a wide array of development activities in agriculture, rural development, health, education and small-scale enterprise. These programs are directly responsive

to Agency priorities in institution-building, promotion of the private sector and transfer of appropriate technology. And they are effective in carrying out these priorities at the grassroots level where they benefit people often beyond the reach of larger government-administered activities.

The benefits of these grants extend well beyond the individual field activities they finance. They play a significant role in increasing the technical capabilities and developmental effectiveness of the PVOs in carrying out their full portfolio of activities, whatever the funding source, by consolidating multi-country activities under a single grant mechanism. These grants also are managerially efficient at a time of diminishing Agency staff resources.

This part of our request also includes $7.5 million for Centrally-funded PVO Child Survival Activities. PVOs have served to date as a major instrumentality for carrying out the Agency's Child Survival initiative. They will continue in this important role in FY 1987.

And finally, our request for the Office of Private and Voluntary Cooperation includes $2.5 million for Development Education. This program, authorized by the Biden-Pell Amendment, permits A.I.D. to promote widespread public discussion of issues related to world hunger and poverty, principally through a competitive program of small grants to PVOs. Since the
Development Education program began in 1982, these cost-shared grants have been effective in generating broad public interest in the challenges of development and in leveraging the private resources and sense of commitment essential to sustain this effort.

In recent years, there has been a major increase both in the number of PVOs committed to overseas development and in the developmental capabilities of those PVOs. This growth has been accompanied by concern that the independent and voluntary nature of PVOs - an important factor in their effectiveness - should not be compromised by too heavy a reliance on the U.S. Government for funding. To ensure that the PVOs we support maintain their financial independence, we place particular emphasis on applying grant eligibility and cost-sharing requirements in carrying out our PVO grant programs. While PVO cost-sharing has been a relatively long-standing requirement for each project under the PVO grant program, we are now applying the additional requirement - as contained in A.I.D.'s FY 1986 legislation - that calls for a minimum of 20% non-U.S. Government funding as a basic condition of PVO eligibility for A.I.D. Development Assistance grants. We will continue to give continued close attention to this important issue of maintaining PVO "privateness".

Our FY 1987 request also includes several Development Assistance-financed activities supportive of the Food for Peace program. These dollar-funded activities are a small but vital component of A.I.D.'s effort to ensure that food aid is timely, well-targeted, soundly designed and effectively administered. They enable us to respond knowledgeably and rapidly to immediate needs, e.g., in Africa, as well as to utilize food aid as an increasingly important development resource to address the basic problems that create the need for such assistance. The Title II Outreach Project, for example, provides grants to PVOs to help cover the logistic and material support costs of targeting Title II food aid to the truly needy in Africa and the poorest countries of Latin America. A related project, Title II Program Enhancement, is helping PVOs improve the developmental impact of Title II resources by

strengthening their capability to design and implement complementary activities, e.g., in health, education and training, in order to increase the longer-term effectiveness of their supplementary feeding programs. And a third Development Assistance-funded activity, Africa Food Needs Assessment, helps A.I.D. Missions and host governments improve the collection and analysis of food sector data in drought-prone African countries, making possible more accurate and timely estimates of food aid needs.

Prepared Statement of Julia V. Taft

DIRECTOR

OFFICE OF U.S. FOREIGN DISASTER ASSISTANCE

AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, 1985 was a year of unprecedented human tragedy resulting from natural and man-made disasters. Devastating earthquakes in Chile and Mexico, cyclones in Bangladesh and Fiji, a volcanic eruption in Colombia and 27 other sudden disasters to which OFDA provided relief claimed thousands of lives throughout the world. At the same time, millions of people were threatened by the drought and famine conditions which ravaged sub-Saharan Africa.

In the twenty-one-year history of the Office of U.S. Foreign Disaster Assistance (OFDA), never has the collective magnitude of disasters been so great nor the level of appropriated funds been as substantial to ensure effective U.S. response. Yet in spite of the extraordinary demands which were placed on the OFDA staff, I am pleased to report that the office not only met the challenges with diligence and competence but also learned

many valuable lessons which offer new opportunities to improve our operational effectiveness in the future.

As you know, I assumed the directorship of OFDA only in January of this year. In several of my past positions, I have had the opportunity to observe the office's work at first hand. I was frankly amazed, however, when I had to come to grips with the breadth and depth of the responsibilities which rest with OFDA. Our greatest challenge is to turn our focus to those areas in which we can be assured of the greatest impact while ensuring that the U.S. Government's International Disaster Assistance program is as responsive as possible to the needs of disaster-threatened populations throughout the world.

Some of the disasters to which we responded in 1985 are indicative of the changing patterns of international disaster assistance which should be of interest to this Committee.

One of the patterns is the increased ability of some disaster-prone nations to respond effectively to their own disaster requirements. The Chile earthquake relief effort of March, 1985, was an excellent example of how host country national organizations which have emphasized disaster preparedness can effectively coordinate massive relief efforts with minimal outside assistance. The fact that only 177 people died in the earthquake - which shocked urban areas - also is a testimony in part to the value of quality engineering design based on sound assessment of disaster threat. It is encouraging that the Chilean authorities, along with our own National Science Foundation, OFDA and others, are actively following new initiatives to find better ways to protect populations from the earthquake threat in Chile.

In May, 1985, an estimated 10,000 people died in Bangladesh from a devastating cyclone and storm surge. To put that tragic toll in perspective, however, we must remember that a storm of comparable strength killed at least 300,000 people in the same area in 1970. The difference in 1985 was, in large part determined by the cyclone alert system installed by the National Oceanic and Atmospheric Administration and the National Aeronautics and Space Administration in 1982 which was funded by OFDA. This technology, which generated early warnings transmitted via greatly improved communications networks, is credited with the saving of several thousand lives.

In Bangladesh there has also been a significant commitment to disaster preparedness over the past several years. This commitment has paid off, as demonstrated by the fact that the Government of Bangladesh proved itself capable of responding to the needs of the stricken population with only financial support provided by the donor community. The need for such financial support is indicative of the high correlation between economic stability and self-sufficiency in the face of disaster, which is examined below.

The Mexico earthquake of September 18 was the most severe natural disaster in the Western Hemisphere since the Guatemala earthquake of 1976. It was the first time the Mexican Government had accepted large-scale assistance from the United States in several years. It was the first time OFDA officially deployed search and rescue teams. It triggered the largest U.S, public and private assessment and coordination capability yet fielded by OFDA. And it was the first major disaster to occur since OFDA's immersion in the Africa famine relief program. The sum of these "firsts" has prompted intense

internal reviews of OFDA's operating procedures and resources, and these have already yielded new opportunities for improving our effectiveness and efficiency.

A couple of points should be made with regard to Mexico.

Thirty six hours after the earthquake struck on a Wednesday, AID and the State Department were still receiving word that the Government of Mexico would not be receptive to assistance from the United States Government. It was not until that Friday evening that the enormity of the catastrophe suggested that the threshhold of self-sufficiency had been surpassed. It is sad, but perhaps inevitable, that countries which are suffering economic hardships may be forced to reverse their admirable goals toward self-sufficiency in disaster relief. Countries may become "disaster-prone" overnight in the sense that they are unable to respond totally to major natural disaster events.

The humanitarian needs of the Mexican people resulting from the earthquake tragedy evoked enormous generosity by the American people. More than $40 million in aid flowed into Mexico from private citzens, voluntary agencies, and the U.S. Government. In return, governmental agencies as well as communities throughout our country, received an extremely useful perspective about the impact of a major earthquake in an urban setting. Already California disaster preparedness officials at the state and local level are modifying some of California's earthquake contingency planning based on the Mexico City experience in the fields of lifeline support, rescue techniques, building codes, zoning, emergency medical aid and communications support.

This example underscores the relevance of U.S. foreign disaster

relief aid to our own communities at home. For this reason, OFDA is developing collaborative arrangements with a variety of Federal, state, and local governments to provide preparedness training, technical assistance, and disaster response to disaster-prone countries in such fields as wild fire suppression, disaster management and assessment, search and rescue, and volcano monitoring. Such aid is not only an investment in helping recipient disaster-prone countries better protect their populations, but also the trainers receive valuable hands-on experience which improves their own ability to service U.S. citizen at home, should similar disasters strike.

A current initiative in Colombia illustrates this point. Less than two months after the Mexico earthquake, 23,000 Colombians were killed by mudflows generated by an eruption of Nevado de Ruiz volcano. A few months before that eruption, a U.S. volcanologist, with OFDA funding, had been working with Colombian and international counterparts to determine the risk level of the communities surrounding Ruiz. At the time of the eruption, hazard maps and evacuation plans were being prepared, but they were too late for the people of Armero who died under the mud. OFDA has continued scientific assistance to Colombia through the U. S. Geological Survey (USGS) to ensure that the remaining populations in the area can be adequately warned of any future precursors of events which might threaten them.

With U.S. Army helicopter support, scientists of the USGS and private institutions have worked with their Colombian counterparts to install monitoring equipment and to establish an observatory to monitor the volcano. In the few intervening months, the Geological Survey has done a truly remarkable job in transferring operating and analytical expertise to the

Colombian scientists. As of one week from tomorrow, the U.S. Government will formally turn over remaining responsibility to the Colombians who are now qualified to maintain the watch over the still dangerous volcano. The scientists of the USGS deserve much credit for their contributions. But they modestly report that they have received valuable information from the Ruiz eruption which will enhance their continuing evaluations of U.S. active volcanoes such as Mount St. Helens.

The common disaster theme throughout 1985 was the famine in Africa. At the time it was happening, the relief effort appeared slow. In retrospect, however, it seems incredible that so much assistance has been provided in a targetted and coordinated way and so many people have received a new lease on life - literally - in the less than one year since enactment by the Congress of the supplemental funding for the African drought victims.

As massive as the relief effort has been, we are aware that many drought-related problems still exist in Africa. OFDA will continue its close monitoring of the situation in conjunction with the AID Africa Bureau and will respond should life-threatening events require our intervention.

In addition to these extraordinarily important relief efforts this past year, OFDA has continued to advance the causes of preparedness, early warning and mitigation. OFDA provided disaster-related training opportunities to nearly 200 foreign nationals, and we continued with our technology transfer activities and supported mitigation programs in housing, agriculture and health. Additionally, OFDA supported the development of six disaster-related courses as part of the new extension/correspondence course on disaster relief at the

University of Wisconsin. We will be encouraging the use of these course offerings throughout the developing world.

Through the years of its existence OFDA has assisted disaster-prone countries to protect their populations from disasters and provide relief and rehabilitation when they inevitably occur. Built in large part on faith and logical assumptions, we believe OFDA's programs have had a truly positive effect on reducing the risk of disaster-threatened populations.

OFDA must never underestimate its primary responsibility which is to provide immediate, effective and efficient disaster relief to the victims of natural and man-made disasters. I have taken very seriously the emphasis placed on emergency management by my predecessor. We are committed to improving our skills and resources and are currently utilizing some of the best expertise in the country to do so.

At the same time, I am struck by the fact that only rarely do we have the opportunity to save lives after a disaster strikes. Thus, we cannot ignore those preparedness, early warning and mitigation activities which enable host countries themselves to respond effectively to the needs of their own populations at risk.

Some of the more technical work we have sponsored in early warning systems has stimulated great improvements in the state of the art of disaster forecasting for drought, storms, tsunamis and seismic activity. We have progressed to the point where we can now concentrate on applying proven scientific and technological capabilities directly to the needs of the populations at risk. We believe improved host country disaster

preparedness and management should be a primary focus for future OFDA preparedness programs. At the same time, we shall find new ways to encourage other elements of the U.S. Government which have broad technical ability (NOAA, NASA, USGS) and the private sector to pursue scientific and technological areas of mutual interest.

In fiscal year 1985, $25 million was appropriated to OFDA for International Disaster Assistance activities. An additional $560 thousand was carried over from 1984. In April, 1985, $137.5 million was appropriated by the Congress for the African drought and famine Emergency. In fiscal year 1986, our International Disaster Assistance budget level is $21.5 million, excluding the African supplemental funds available through March 31. This level signals a return to more normal levels of funding. Given our average normal requirements for disaster relief, we shall continue to be responsive to needs within our budget.

For fiscal year 1987, we are requesting $25 million for relief and rehabilitation activities, preparedness, early warning and mitigation. The program which we have outlined in our Congressional Presentation reflects the emphases which we firmly believe will best serve the needs of populations threatened by disaster. The fact that we are reviewing those emphases simply means that we shall be able to focus more successfully on those activities which will offer the most effective U.S. and host country response to natural and man-made disasters.

Mr. Chairman, I am extremely pleased to be the new Director of the Office of U.S. Foreign Disaster Assistance and cannot imagine another office within the foreign affairs community

which offers greater satisfaction in terms of meeting humanitarian needs. I want to thank you for the consistent support which you and your Committee colleagues have offered OFDA through the years. I look forward to continuing a close working relationship with your Committee and its knowledgeable staff.

PREPARED STATEMENT OF CHRISTIAN HOLMES
DIRECTOR
U.S. TRADE AND DEVELOPMENT PROGRAM

Mr. Chairman, Members of the Subcommittee:

Thank you for this opportunity to testify on behalf of the Administration's FY 87 appropriations request for the Trade and Development Program (TDP).

For FY 1987, we are requesting $18 million to support TDP operating and program expenses. This amount will enable TDP to leverage a relatively small amount of foreign assistance funds for the benefit of American workers and developing countries alike. Our request will also enable us to continue to concentrate on areas of high priority to your Subcommittee, such as increasing trade and investment in the Caribbean Basin.

The principal justification for our request is not just the need of developing countries and U.S. exporters for the services provided by the Trade and Development Program. Fundamentally, the justification is TDP's track record. For example, from FY 1980 through FY 1982 TDP leveraged $20 million in foreign aid so as to generate at least half a billion dollars in U.S. exports from 30 states. We have targeted TDP funds on assisting developing countries plan major projects critical to their future; in so doing we have given U.S. firms the inside track on selling U.S. goods and services needed in the design, construction and operation of these projects.

Due in large part to your Subcommittee's support, we have become a significant factor in our government's efforts to promote trade and investment with developing countries. In FY 1981 we managed a $4 million, 20 project, portfolio. By the close of FY 1985 we had managed a total of 325 projects, costing about $55 million. Of those 325 projects about two-thirds still require our attention. During that time, we have streamlined our operation, relying increasingly on the U.S. private sector to implement our program. The following table charts the evolution of the TDP program and outlines our FY 1987 request.

Trade and Development Program

Program and Operating Expense Obligations
($ in 000)

	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	Estimated FY 1986	Estimated FY 1987
Total TDP	4,838	5,463	6,796	12,614	16,561	21,049	18,807	18,000*
Program Funds	3,779	4,000	5,514	10,899	15,010	19,300	16,907	15,920
Operating Exp.	1,059	1,463	1,282	1,715	1,551	1,749	1,900	2,080

*President's Budget Request.

UNIQUENESS OF TDP:

TDP is unique among foreign assistance programs because of its efforts to meet both U.S. trade and aid objectives simultaneously. TDP does this primarily by financing feasibility studies on developing country projects, such as dams, power stations, agribusiness enterprises, which are potential export markets for U.S. goods and services.

TDP's efforts are greatly enhanced by our Congressional Mandate which encourages TDP to operate not only in the foreign aid recipient countries but also in the so-called non-A.I.D. countries such as China, Colombia, and Turkey. Additionally our authorizing statute encourages TDP to concentrate on helping U.S. business develop natural resources which are of strategic importance to the United States, such as cobalt and chromite. We thus have broad authority to help countries develop, while also assisting U.S. firms to capture major export business in developing countries. In sum, for TDP, trade is aid.

We work closely with American businesses. For example:

-- When an American firm is bidding on a planning contract, which may literally mean millions of dollars to U.S. exporters, and runs the risk of losing that contract due

to subsidized foreign competition, the American firm knows it can turn to TDP--and it also knows we make a decision within 48 hours on a major TDP grant.

-- When a developing country has committed funds to build a project, U.S. firms know that TDP will do its best to convince the country that the United States firms, with TDP support, should do the planning of the project--and not firms from such countries as Japan, France, Germany, and Canada which have programs similar to but larger than TDP.

-- When American investors find projects which are not only excellent investment opportunities but also possible U.S. export markets for U.S. firms, U.S. investors know TDP is often prepared to co-finance the feasibility studies with them.

Most importantly, American firms and developing countries know that TDP is willing to innovate, take risks, and aggressively go to bat for U.S. firms for the benefit of both developing countries and U.S. firms alike.

In terms of our development impact, TDP concentrates on projects which the developing countries themselves believe to be crucial to their development. While A.I.D. does not normally finance such activities as toxic waste disposal systems, power plants, transmission lines, airports, and telecommunications systems, such projects are of major importance to developing countries and must be carefully planned. It is thus at the planning stage where TDP makes a very important contribution to a country's development. Additionally, TDP is the principal aid program dealing with the middle income developing countries. Nations such as Colombia, Turkey, Brazil, Korea, and China find TDP to be a very valuable tool to further their development plans. TDP thus fills an important niche in the overall effort of the USG to strengthen the economics of the developing world.

ACCOMPLISHMENTS

The following table identifies (a) major development projects on which TDP has conducted feasibility studies; (b) the dollar value of the U.S. exports these projects; and (c) the states in which the U.S. exporters to these projects are located.

Country	Project Title	Fiscal Year Obligated	Study Amount ($in $1000)	Actual U.S. Exports to date (in $1000)	U.S. States Benefitting
Algeria	*Center Pivot Irrigation	1985	46.4	27,000	CO, NE, & others
Bangladesh	Minerals Exploration	1980	11.7	340	VA, LA
China	*Tien Sheng Quiao Hydro	1980,1981,1982,1983	620.6	20,300	MA, IL, ID
	*Beijing Industrial Estate	1978	161.7	6,300	MO, ID, MI
	Coal Slurry	1983	31.8	500	CA
Dominica	*Floriculture	1983	75.5	a/	FL & others
Gabon	*Minerals Port	1979,1980,1983	467.4	1,950	NY, PA
Gulf States	Educational Training	1980	9.9	380	VA & others
Indonesia	Reactor Lab	1983	350.0	6,114	CA
	Investment Seminar	1983	15.0	5,500	OH, CA, LA
Jamaica	*Rice Production/Milling	1982	74.8	1,800	TX, AR, IL & others
	*Soybean Production	1982	23.9	250	IL, OH
	*Agribusiness	1981	27.4	1,800	FL
	*Renewable Energy	1981	b/	237	N/A
Korea	Satellite	1983	100.0	90	DC
Malysia	*Mini-Hydro	1981	35.0	2,500	ID
	Railroad Training	1980	9.9	180	DC & others
Morocco	*Oil Shale Symposium	1980,1981	66.6	6,925	CO, OH, ID, WY, NJ, IN, MO, KY,
Nigeria	*Agribusiness	1981	93.2	26,000	AL & others
	Cooperative Health	1981	3.0	110	MO & others
	Tuna Fisheries	1980,1981	3.0	500	CA
	Immigration	1980	2.5	199	GA
	Environmental Protection	1980	4.9	10	DC
Pakistan	*Airport Projects Management	1984	450.0	5,000	CA
Peru	Cusco Airport	1982	340.0	2,000	VA
Philippines	*Iligan Steel	1981	300.0	112,700	PA & others
	*Coal/Lignite	1982,1983,1984,1985	1,313.6	3,000	PA
	Airports/Airways	1981,1982	485.3	4,347	VA, NY, AZ, MO
	Telecommunications	1983,1984	703.0	1,680	
Sri Lanka	Irrigation	1980	4.9	389	DC, VA & others
Thailand	*Mae Moh Transmission	1980,1981	403.3	11,642	MO, CT, MA, NY
	*Ao Phai Coal Generation	1981,1982, 1985	420.3	200	NJ
	*Lignite and Oil Shale	1980,1981,1983,1984	369.9	31,400	OH, IL, MA, PA, CA
	*Don Muang Airport	1984,1985	500.0	4,200	UT
	*Pipeline and Gas	1977	200.0	55,000	TX, LA & others
Trinidad/ Tobago	*Computer/Taxes	1980	2.3	330	DC, NY
Tunisia	Sra Ouertane Phosphate	1982,1984,1985	1,600.0	9,800	FL, CA
	Dairy Project	1980,1982	153.1	1,700	VT, ID, WI
	*Date Project	1984	0 c/	36	TX
Turkey	*Agribusiness	1982,1983	167.0	110,000	MN & other farm belt states
	*Highway Maintenance	1981	6.7	3,200	TX, OH, MN, CA
Uruguay	Biomass to Ethanol	1980	216.5	40	VA
Venezuela	*Solid Waste Management	1980	32.7	37,000	TX, MI, IL, TN, AL, NJ, MA, PA
			9,869.8	549,609	

* Profile included in "Profile of Successful Projects"

a/ U.S. exports of materials soon after investment finalized
b/ No disbursement to date
c/ $40,000 TDP grant has been reimbursed

As indicated in the previous table, TDP studies have far reaching benefits to U.S. exports. The following are suppliers of goods and services to projects on which TDP financed studies over the last five years.

U.S. PRIVATE SECTOR EXPORTERS
(Exporters to projects on which TDP financed feasibility studies)

Services Suppliers

Airways Engineering Corporation (VA)
Bechtel Corp. (CA)
Browning Ferris International (TX)
Burns and Roe (NJ)
D.C. Associates (DC)
Davy McKee (OH)
Dravo Engineering (PA)
General Electric Company (CT)
Jacobs Engineering (CA & FL)
I.S. Joseph (MN)
Kaiser Engineering(CA)
LEMCO (MO)
A.D. Little (MA)
Louisiana State University (LA)
McDaniel Erection Company (TX)
Meta Systems (MA)
Morrison Knudsen (ID)
Multinational Agribusiness Systems (VA)
Performance Associates (CA)
Perini Corporation (MA)
Planning Research Corporation (VA, NY)
Raymond International (CA)
(WI)
Resource Development Associates (CA)
Sargent Irrigation (NE)
Science Applications Inc. (CO)
Soros Associates (NY)
Stanley Consultants (IA)
Taylor Cross Group (AR)
Teleconsult (DC)
U.S. Engineers and Consultants (PA)

Goods Suppliers

Abey Jetways (VT)
Ag Pro Inc. (TX)
American Conveyor Company (FL)
Babcock and Wilcox (OH)
Bailey Controls (OH)
Blaw Knox (PA)
California Pellet Mill (CA)
Cargill (IL)
Caterpiller Tractor (IL)
Cummins Diesel (OH)
Dane Corp. (OH)
Digital Equipment (MA)
Dresser Industries (IN)
Dempster (TN)
Electromatics (NY)
Ford Motor Company (KY)
Freightliner (WA)
A.P. Green (MO)
S.A. Healy (IL)
Joseph Heil (AL)
Hill Manufacturing (PA)
Holstein-Friesian Assoc. (VT)

Hyspan Precision Products (CA)
Ingersoll Rand Company (OH)
International Harvester Co. (IL)
Johnson Ecolotech (NJ)
Koehring Manufacturing Co. (OH)
Kravat Coal Company (OH)
Long Airdox Company (WV & NJ)
McLellan Equipment Company (CA)
Minnesota Mining and Manuf.
Mitchell Building (TX)
Morrison Knudsen (ID)
Motorola (AZ)
New Idea Company (OH)
Omnivac Company
Pebco (KY)
Power Technology Inc. (NY)
Reedrill Manufacturing (TX)
Rice Mach Company (WA)
Robbins Machine Company (WA)
Terex Corporation (OH)
Tippens Machine and Manuf. (PA)
Vibra Screw Inc. (NJ)
Westinghouse Electric Corp. (PA)
Wilcox Electric Company (MO)
World Wide Sires (CA)

EXAMPLES OF SUCCESSFUL TDP PROJECTS

In order to further explain the interrelationship between the foreign aid which TDP provides by financing feasibility studies and the U.S. trade which follows, here is a brief description of some of our successful projects:

Thailand - Lignite and Oil Shale Production

-- In FY 80-81 TDP financed $370,000 in studies done by AER Enterprises (N.J.) and Dravo (Pittsburgh, PA) on increased oil shale and lignite production.

-- Subsequently, the Thais purchased about $30 million in U.S. equipment, primarily Terex dump trucks (Ohio) and Caterpillar Tractors (Illinois).

Thailand - Power Transmission Line

-- In FY 80 and 81, TDP financed $403,349 in studies by LEMCO (MO) to expand a major electrical transmission network.

-- Subsequently LEMCO Engineers received $11.6 million in design contracts.

Thailand - Airport

-- In FY 84 and FY 85, TDP financed a $500,000 study by T.A.M.S. (New York) to expand the Bangkok International Airport.

-- The study proposed loading bridges for the airport which led to a $7 million contract for loading and docking equipment from Abex/Jetway Division of IC Industries (Utah).

Jamaica - Rice Production

-- In FY 82 TDP financed a $75,000 study to develop a joint venture between a U.S. firm and the Jamaican Government to construct a rice mill and farm.

-- The project has now begun. Mitchell Building (Texas) and Rice Mach (Arkansas) have sold $1.1 million in construction services and milling equipment. $700,000 in farm equipment has been ordered from John Deere (Illinois).

Jamaica - Soybean Production

-- In FY 82 TDP financed a $24,000 study to grow soybeans.

-- The project is now under way; 1,000 acres in soybeans were

planted in 1984. The U.S. has exported $250,000 in farm equipment from John Deere (Illinois) and combines from New Idea Company (Ohio).

Costa Rica - Strawberry Farm

-- In FY 85, TDP financed a $50,000 study carried out by the American Society of Agricultural Consultants (ASAC) to identify investment and export opportunities in the Caribbean Basin.

-- The ASAC team identified strawberry growing as a high priority. Subsequently, Food Processing Consultants (California) invested in a strawberry farm and within a year were exporting strawberries to the United States for the U.S. winter market. ASAC estimates that approximately $200,000 in equipment will also be exported to this project from the U.S.

Venezuela - Solid Waste Management

-- In FY 80, TDP financed a $32,681 study by Westinghouse Sanitation Systems (Maryland) to improve the solid waste management system in Maracaibo.

-- Subsequently, Browning Ferris (Texas) received a five year contract worth $13.6 million for its services in managing and improving the system; and then a $40.6 million contract to provide similar services to Caracas. In addition Browning Ferris arranged the purchase of $13.9 million in equipment from the U.S. Principal suppliers were International Harvester (Illinois); Ford Motors (Michigan); Dempster (Tennessee); Freightliner (Washington); and Hill Manufacturing (Pennsylvania).

Morocco - Oil Shale

-- In FY 80, TDP financed a $66,574 symposium to assist Moroccan officials in choosing technology for processing of oil shale.

-- Subsequently, Science Application (Colorado), Kaiser Engineering (California); Davy McKee (Ohio), and Morrison Knudsen (Idaho) received $5.8 million in contracts for design

work and construction of a test station. A number of other U.S. firms provided $1.125 million worth of equipment.

Tunisia - Dairy

-- In FY 80 and 82, TDP financed $153,000 in technical assistance by Land-O-Lakes (Minneapolis, Minnesota) and Delphi Research (D.C.) to upgrade Tunisia's dairy industry.

-- The Holstein Friesian Association (Vermont, Wisconsin) subsequently shipped 1000 head of breeding cattle ($1.2 million).

Tunisia - Phosphate Production

-- In FY 82 and 83, TDP financed $600,000 in studies by Jacobs Engineering (Florida and California) to develop the Sra Ouertane Phosphate mine.

-- Jacobs Engineering and Bechtel Corporation (California) received an additional $9.8 million contract for engineering and supervisory construction work.

Turkey - Highway Maintenance

-- In FY 81, TDP financed a $18,000 survey of equipment requirements for maintaining Turkey's roads.

-- As a result, Minnesota Mining & Manufacturing (Minnesota); Koenring Manufacturing (Ohio), and other U.S. firms won $3.2 million in contracts.

Turkey - Agribusiness

-- In FY 82 and FY 83 TDP financed a $167,000 analysis of the agribusiness sector in Turkey. A key component was to identify markets for U.S. soybeans, grain and feed grain.

-- Following these surveys, the U.S. in 1984 exported $105 million of barley, corn and soybeans to Turkey for the first time in several years. The U.S. Feed Grain Council and the American Soybean Association attributed this breakthrough to the TDP study and TDP financed exchanges of U.S. and Turkish agribusiness experts.

Algeria - Irrigation Project

-- In FY 85, TDP financed a $50,000 study by Western Agri-Management (Colorado) to develop modern center pivot irrigation farms.

-- Western Agri-Management was subsequently awarded a $27 million contract to develop and manage this project.

Gabon - Port Development

-- In FY 80 and 83, TDP financed $457,000 of studies of the dredging and development of a port in Gabon.

-- Thereafter, Soros Associates (New York) and others have received nearly $2 million in contracts for further engineering work. Raymond Kaiser (Houston, Texas) and the Perini Corporation (Massachusetts) are part of an international consortium that has been selected to construct the port. Final contracting has been delayed as a result of the recent sharp decline in oil prices.

China - Hydropower Project

-- In FY 82, TDP financed a $440,000 study by Harza Engineers (Illinois) on a major hydropower project.

-- U.S. firms have sold $20.3 million in equipment, including tunnel boring machines from Robbins Machine Company (Washington), Morrison Knudsen (Idaho) and S.A. Healy (Illinois); Caterpillar (Illinois) also sold $5.5 million in trucks.

China - Industrial Park

-- In FY 84, TDP financed a $162,000 study on developing an industrial park in the Zhuhai special economic zone.

-- The Chinese have now purchased a $3 million compressor engine factory from National Industrial Services, Inc. (Missouri); Morrison Knudsen Corporation (Idaho) has received a $2 million contract to ship and assemble the plant.

Pakistan - Airport

-- In FY 84, TDP financed a $450,000 study by Becntel

(California) concerning the development of Pakistan's civil airports.

-- Becntel subsequently received a $8 million contract to manage the country wide airport program.

Philippines - Illigan Steel Plant

-- In FY 81, a TDP grant of $300,000 enabled U.S. Steel Consulting Engineers (Pennsylvania) to win an $8 million contract to study the expansion and modernization of the Illigan Steel Plant.

-- U.S. firms are selling up to $105 million in equipment and services to this project. Blaw Knox (Pennsylvania) sold a $52 million tandem cold mill and drilling equipment; Tippens Machine (Pennsylvania) sold $16 million in hot mill equipment, and U.S. Steel Consulting Engineers received $7 million in consulting contracts. U.S. Steel estimates that this project means 4000 man hours of employment to U.S. workers.

Promising Projects

In addition to the previous projects, we are closely monitoring a number of studies on projects to which there is a strong chance of U.S. exports being generated in the near future. This table summarizes these projects:

TDP PROJECTS: POTENTIAL EXPORTS

Project Description	Amount of Study	Exports Projected	Location of Potential Suppliers
1. Taiwan Mass Transit Potential export of 48 train units and related equipment	$320,000	Up to $500 million for for train units and related equipment.	PA KY
2. China Xinnua News Agency-Updating major news agency	$350,000	Approximately $40 million for computers & communition equipment.	MA FL IL DC TX CA PA NY WI IL
3. China Shenzhen Airport International airport for Special Economic Zone	$350,000	Approximately $200 million in construction contracts.	MO CT WI NY FL GA DE LA NM IL OH
4. Peru Cobalt Development	$400,000	$60 million in mining and milling equipment	WI CO
5. Costa Rica Telecommunications Development of rural cellular phone network	$ 75,000	$36 million in cellular equipment	IL VA TX FL
6. Guatemala Electric Power Electric Load Dispatch & Communications Center	$225,000	$13 million for equipment and communications ware.	IL CA TX MI
7. Columbia Telecom. Modernization	$500,000	$80 million in telecommunications equipment.	NY CA MA VA
8. Dominican Floraculture For marketing exotic flowers	$ 75,000	$300,000 in seed and supplies	FL

Taiwan Mass Transit

-- In FY 85, TDP financed a $320,000 seminar carried out by the U.S. Taiwan Transit Group (New York) aimed at exposing Taiwanese officials to U.S. mass transit technology.

-- The members of the U.S. Taiwan Transit Group feel optimistic that its members will win an award for 48 train units. The Group is confident that this initial procurement will be followed by additional exports. Total exports could be as high a $500 million--Westinghouse (PA), General Electric (PA), General Signal (KY), Transit America/Budd (PA) all stand a strong chance of providing this equipment. Another reason for optimism is that engineering members of the group have already received a contract for engineering and planning services.

China Xinhua News Agency

-- In FY 1986, TDP financed a $350,000 study now being carried out by Phoenix Associates (Maryland) to modernize China's major news agency.

-- The chances are strong the study will lead to the procurement of approximately $40 million in computers, telecommunication, and related equipment from the United States. The potential supplies include Wang (Massachusetts); Digital Equipment Corporation (Massachusetts and DC); Equatorial Communication (California); I.T.T. (New York, Illinois); Harza Corporation (Florida); Intecom (Texas); Delta Data (Pennsylvania); AT&T (Illinois, Wisconsin).

China Shenzhen Airport

-- In FY 1985, TDP financed a $800,000 study carried out by Parsons-Lockheed International (California) on developing an international airport in the Shenzhen Special Economic Zone.

-- This is a one billion dollar project, with potential U.S. exports estimated at $200 million. Possible U.S. suppliers include Wilcox Electric (Missouri); General Electric (N.Y.); Caterpillar (Illinois). Transact International (Ohio); Hobart Brothers (Ohio); Tow Tractor, Inc. (Ga.); Byerly Aviation, Inc. (Ill.); Krauss Hines, (Conn); Wallard Equipment, (Florida); Garsight, (N.Y.; La.); Northwestern Motor (Wisc.); Devore Aviation, (N.M.)

Peru Cobalt

-- In FY 1984, TDP financed a $400,000 study carried out by Bechtel (California) to extract cobalt from the waste of an iron ore mine.

-- Should the project go forward, Bechtel anticipates $60 million in exports in the form of mining and milling macninery. Potential suppliers include Allis-Chalmers (Wisconsin); Denver Equipment Company (Colorado).

Costa Rica Telecommunications

-- In FY 1984 TDP financed a $75,000 study carried out by Communications Corporation International (CCI) on developing a rural cellular phone network in Costa Rica.

-- CCI estimates that this study could generate $36 million in sales of cellular equipment; prime suppliers include Motorola (Illinois); General Electric (Virginia); AT&T; Northern Telecom (Texas) and Astronet in (Florida).

Guatemala Electric Power

-- In FY 1983, TDP financed a $225,000 study carried out by Harza Engineering (Illinois) for an Electric Load Dispatch and Global Communication Center in Guatemala.

-- The project will be financed as part of a $65 million World Bank loan. Harza estimates that some $13 million in exports of microwave systems, load dispatch equipment, transducers, generators, and computers by such firms as

Motorola (Illinois); Harris (California); Collins (Texas); Control Data (Minnesota), and General Motors.

Colombia Telecommunications

-- In FY 1985, TDP financed a $500,000 study carried out by Arthur D. Little, (Massachusetts) on modernizing Colombia's telecommunications system.

-- Should the Government of Colombia adopt the study's recommendation, U.S. exports could total $80 million; prime potential exporters include AT&T (New York) Harris (California), GTE (Massachusetts), and COMSAT (Virginia).

Dominican Floraculture

-- In FY 1983, a TDP reimbursable grant to the Caribbean Basin Corporation (DC) helped finance a study carried out by the Traverse Group (Michigan) of the production and export marketing of exotic flowers.

-- CBC has a joint venture partner, a local grower who will supply land and manage the project. CBC equity and borrowing of $300,000 will be used primarily to purchase new stock from a Florida nursery as well as equipment, fertilizer and pesticides from U.S. suppliers.

Regional Areas of Concentration: Caribbean Basin, China

We plan to continue to give two geographic areas special attention: The Caribbean Basin and China. Both regions are of significant commercial and strategic importance to the United States. TDP has done much to foster trade and investment in these areas. I should note that in the Caribbean Basin we have established a special program to identify agribusiness as well as a unique effort to identify investment opportunities. In China, we have evolved into what many U.S. firms consider to be the most aggressive trade promotion program in the U.S. Government.

Caribbean Basin

Operating in the Caribbean Basin has been a particular challenge for TDP. Due to a lack of project finance, there are relatively few "mega projects," such as airports and hydropower

facilities in which TDP is actively involved elsewhere in the developing world. We therefore have developed an approach in the Caribbean Basin where we (a) target on relatively smaller projects which may qualify for project finance from such sources as the World Bank and (b) co-finance studies with U.S. investors so as to help attract investment to this critical region. Our principal criteria for financing these investor studies (which we refer to as Reimbursable Grant Agreements (RGAs) are that the investor must have both technical experience and equity; that the project itself must also be an export market for U.S. goods and services; and that, if the investment proceeds, TDP will be reimbursed for its grant.

The following table charts our progress in the Caribbean Basin.

1981

Antilles Manpower Assessment & DM*	2,000
Jamaica Agro Industry DM*	9,900
Jamaica Coal Conversion DM*	9,950
Jamaica Agri Tour Orientation	17,920
Jamaica Renewable Energy Workshop	20,000
Jamaica Coal Conversion	100,000
Panama Coal Transshipment	100,000
TOTAL	$259,770

1982

Jamaica Crop Rotation RGA	47,810
Panama Coal Methanol Review	7,163
Belize Electricity Transmission	172,000
Jamaica Coal Conversion	355,600
Belize Kenaf RGA*	96,860
Jamaica Rice Production RGA	75,000
Panama Coal RGA	500,000
TOTAL	$1,254,433

1983

Belize Electricity TRansm. Add On	95,000
CBI UNIDO Projects	100,000
Costa Rica Cellular Telephones	75,000
Costa Rica Fuel & Feed RGA*	69,124
Dominica Water RGA*	139,327
Dominica Floriculture RGA*	75,465
Guatemala Electric Load Dispatch	225,000
St. Lucia Geothermal	350,000
TOTAL	$1,128,916

1984

Jamaica Winter Vegetable	123,288
Dominica Water Loading Facilities RGA	164,021
Costa Rica Fuel & Feed RGA (add-on)	18,352
Guatemala Shrimp Farming RGA	80,221
Panama Airport DM	6,000
Costa Rica Seafood Investment RGA	117,545
COCESNA (Cen. Amer.) Reg'l Air Nav.	62,200
L. American Housing Conf. (CB portion)	47,810
TOTAL	$ 619,437

1985

Costa Rica Container RGA	20,400
Costa Rica Western Agri Mgmt RGA	85,000
Costa Rica Seafood RGA	126,576
Dom. Republic Lockwood RGA	91,365
Dom. Republic Energy RGA	9,860
Dom. Republic Mining	200,000
Dom. Republic Pres de Bobe	34,000
Dom. Republic Sugar Cogen	7,382
Dom. Republic Cement	7,200
Grenada Hotel RGA	50,000
Honduras Hydro	530,000
Jamaica Bechtel RGA	60,000
Latin America Housing	100,000
Netherlands Ant. Tourism & Industry	102,739
Trinidad Cellular Radio	6,419
Trinidad Pulp & Paper	12,560
C.R., D.R Agribusiness Project Dev.	360,000
UNDP	1,225
TOTAL	$1,804,726

1986

(as of 3/31, Projected Obligations for FY 86)

COCESNA Reg'l Air Navigation (add-on)	5,000
Dom. Republic Cement	140,000
Dom. Republic Light Manufac. DM*	6,685
Dom. Republic Light Manufac. Study	100,000
El Salvador Coffee Pulp DM*	1,920
Grenada Hotel	30,000
Grenada Tourism	48,600
Haiti Winter Vegetables RGA*	75,000
Honduras Telecommunications	350,000
Honduras Water	500,000
Jamaica Telecommunications DM*	17,100
Panama Telecommunications	300,000
Trinidad Pulp & Paper DM*	1,690
Trinidad Cellular Telephone	5,175
Trinidad Solid Waste DM*	9,961
TOTAL	$1,591,131

DM = Definitional Mission
RGA = Reimbursable Grant Agreement

China

Regarding China, TDP has become actively involved in what many consider to be the world's largest potential market. We have focused our program on projects which stand the highest possibility of being financed and leading to U.S. exports, most of these projects are therefore included in China's five year plan. Our most active projects in China are:

TDP CHINA PROJECTS

Studies Completed

1. Guangdong Province Dairy Plant (China-Agro) - $44,000
2. Tianshengqiao Hydropower (Harza) - $400,000
3. Silicon Materials (Stearns Catalytic) - $100,000
4. Maanshan Wheel and Tire (Rust Engineering) - $200,000
5. Znunai Industrial Park (M.K. Ferguson) - $162,000
6. Shenzhen Airport (Parsons/Lockheed) - $800,000

Studies Underway

1. Yuxian Coal Gasification (Kaiser/Lummus)- $750,000
2. Shanjiasi Heavy Oil Reservoir (SAIC) - $280,000
3. Huangling Coal Mine (Kaiser/Consolidation Coal) - $550,000
4. Maanshan Energy Conservation (IIEC) - $250,000
5. Capital Hospital (American Hospital Supply) - $200,000
6. Automotive (General Motors) - $200,000
7. Xinhua News Agency (Phoenix Associates) - $350,000

Projects on Which Grant Agreements are Signed and Competitive Selection Process Underway

1. Meisnan Multichannel Carrier Equipment - $410,000
2. Xian High Voltage - $450,000
3. Wujing Trigeneration - $600,000
4. Shanghai Solid Waste Disposal - $250,000
5. Shanghai Corn Fermentation - $425,000
6. Shanghai Cement Grinding Plant - $150,000
7. Shanghai Petroleum Coke - $325,000

Future Strategy

Experience has shown that TDP is most effective when it is responsive to the host governments' high priority major capital projects and pursues those that the government is most interested in completing. In this regard, in FY 1985-1986, TDP adjusted its portfolio to concentrate on agribusiness, telecommunications and hazardous waste management projects. It is fair to project that TDP will be active in these sectors in 1987. These are three

very different and very critical development sectors which have in turn diversified the kinds of U.S. firms supported by TDP. TDP will maintain this diverse selection of projects to ensure that as many elements of the U.S. business community as possible benefit from the program.

TDP also highlights several "major" countries where the development plans and financial capability suggest that the prospects for a number of projects reaching implementation are good. During FY 1987, TDP anticipates significant opportunities to foster trade, investment and development in Turkey, Colombia, Indonesia, Thailand, India and China. Given the potential magnitude of China's market, a significant portion of the operations budget will be dedicated to supplying that market.

On a regional level, TDP will be actively engaged in promoting U.S. investment throughout the Caribbean and Pacific Basins in a manner consistent with the Administration's stated priorities. Similarly, TDP will work to increase U.S. support for public and private projects in sub-Saharan Africa.

The TDP approach toward project development will continue to respond to those development objectives of a country which also represent significant trade and investment opportunities for U.S. firms. While we can project with some confidence those countries whose economies will often support major projects, we will continue to operate in a highly flexible fashion, responding to commercial opportunities and adjusting to the economic realities of FY 1987 which will, in the final analysis, determine the projects funded.

Future

As we look to the future, we plan to continue with the approach described in this testimony. We are committed to continue keeping TDP a small, streamlined, results-oriented organization. We hope that the past and anticipated results of our efforts to foster trade and development will continue to receive your Committee's support.

Prepared Statement of David A. Santos

DIRECTOR, OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD
BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE
AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting us to submit a statement on behalf of the Agency for International Development's Office of American Schools and Hospitals Abroad (ASHA).

STRENGTHENING INSTITUTIONS THAT SHARE AMERICAN VALUES

The ability of the United States to achieve its foreign policy goals depends on the extent to which others share America's commitment to such values as private initiative, free inquiry and innovative approaches to problem solving.

ASHA assistance helps private, American-sponsored institutions educate a cadre of foreign citizens who can communicate, share values and work with Americans in business, government, the sciences and other mutually beneficial endeavors. These institutions train future leaders and professionals in a wide variety of disciplines including agriculture, economics, business and public administration, medicine, nursing, public health, education, engineering and the arts and sciences.

ASHA grants help selected institutions to build or renovate classrooms, laboratory, library and dormitory facilities, to purchase scientific, teaching and medical equipment and, in a few cases, to meet the costs of operating educational and medical programs.

FIVE YEAR OVERVIEW

In the last five fiscal years (1981-1985), 69 institutions have received ASHA assistance. These institutions

- educate 135,000 students from more than 100 countries annually,
- provide medical services to more than three million people each year,
- operate facilities worth more than $2 billion in replacement costs, and

- raised $236 million from user fees and $79 million from private contributions last year.

A principal characteristic of these institutions is the effective adaptation of American techniques to other cultures. This is accomplished through close continuing relationships between American citizens and those of other countries.

ASHA-assisted schools and hospitals carry out projects expeditiously. Only $27 thousand remain in the pipeline from grants made prior to FY 1983. Of the $120 million granted during FYs 1981-1985, $21.5 million remain in the pipeline; the majority, $15.9 million, is from FY 1985 grants.

The attachment shows the distribution of the $120 million by country, institution and fiscal year.

IMPROVING GEOGRAPHIC DISTRIBUTION

Since 1979, when program criteria were first published and a competitive evaluation process was instituted, assistance to institutions in Africa, Asia and Latin America has more than doubled. In the case of Africa, the increase has been more than 15-fold. The following table compares the seven-year periods prior to and beginning with 1979.

DISTRIBUTION OF ASHA FUNDS BY REGION*
COMPARISON OF PERIODS BEFORE AND AFTER MANAGEMENT IMPROVEMENTS
(In Thousands of U.S. Dollars)

REGION	GRANTED 1972-1978	% OF TOTAL	GRANTED 1979-1985	% OF TOTAL	$ CHANGE
Africa	$ 1,125	1%	$18,925	11%	+1,582%
Asia	14,855	10	28,443	17	+ 92
Latin America	26,139	18	37,574	22	+ 44
SUBTOTAL	$42,119	29%	$84,942	50%	+ 102
Europe	$ 23,910	16%	$11,875	7%	- 50
Near East	79,622	55	72,183	43	- 9
SUBTOTAL	$103,532	71%	$84,058	50%	- 19
TOTAL	$145,651	100%	$169,000	100%	+ 26

* Based on ASHA dollar appropriations excluding deobligations and funds allocated for program support in the 1970s. Does not include grants of local currency, ESF or other funds.

FISCAL YEAR 1987 REQUEST

A.I.D. is requesting $10 million for the Office of American

Schools and Hospitals Abroad. This is the same amount requested last year. Budget stringencies do not permit an increase. Priority will be given to those institutions which have the best self-help records and those which offer the greatest potential for developing human resources.

Attachment
Grants by Country and Institution, FYs 1981-1985

AMERICAN SCHOOLS AND HOSPITALS ABROAD
GRANTS BY COUNTRY AND INSTITUTION, FYs 1981-1985
(In Thousands of Dollars)

COUNTRY AND INSTITUTION	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	TOTAL
Botswana	900	-	600	550	425	2,475
Kanye Hospital, Kanye	900	-	600	-	-	1,500
Maru a Pula School, Gaborone	-	-	-	550	425	975
Brazil	190	200	-	150	-	540
Esperanca, Santarem	190	200	-	150	-	540
Cameroon	-	-	-	-	325	325
Hospital Central D'Enongal	-	-	-	-	325	325
Ecuador	300	-	-	-	-	300
Working Boys' Center, Quito	300	-	-	-	-	300
Egypt	400	800	900	1,000	2,250	5,350
American University in Cairo	400	800	900	1,000	1,850	4,950
Holy Family College, Cairo	-	-	-	-	400	400
Greece	975	725	695	1,380	1,075	4,850
American College of Greece, Athens	-	300	-	380	-	680
American Farm School, Thessaloniki	550	425	295	350	475	2,095
Anatolia College, Thessaloniki	425	-	200	375	600	1,600
Athens College, Athens	-	-	200	275	-	475
Guatemala	1,200	950	875	1,825	850	5,700
Hospital de la Familia, Nuevo Progreso	-	-	-	125	-	125
Francisco Marroquin University, Guatemala City	-	-	-	1,000	-	1,000
University of the Valley, Guatemala City	1,200	950	875	700	850	4,575
Haiti	400	150	200	-	675	1,425
Adventist Hospital, Port-au-Prince	400	-	-	-	-	400
Bohoc Technical Institute, Bohoc	-	-	200	-	375	575
Hospital St. Croix Leogane	-	150	-	-	300	450

COUNTRY AND INSTITUTION	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	TOTAL
Honduras	1,300	1,500	1,655	1,700	2,500	8,655
Panamerican Agricultural School, Zamorano	1,300	1,500	1,455	1,700	1,700	7,655
Escuela Internacional Sampedrana, San Pedro Sula	-	-	200	-	800	1,000
India	-	500	500	900	1,410	3,310
Kodaikonal School, Tamil Nadu	-	-	-	-	300	300
Ludhiana Christian Medical College, Punjab	-	-	500	500	500	1,500
Vellore Christian Medical College and Hospital, Vellore	-	500	-	400	500	1,400
Woodstock International School, Musoorie	-	-	-	-	110	110
Israel	2,000	2,950	3,100	4,100	4,650	16,800
American College of Belz, Jerusalem	-	-	-	-	500	500
Beth Rivka Comprehensive School, Kfar Chabad	-	-	300	450	-	750
Boys Town Jerusalem	-	800	250	-	300	1,350
Emunah Women of American Community College, Jerusalem	-	-	450	-	200	650
Feinberg Graduate School of the Weizmann Insti. of Sci., Rehovot	1,000	1,000	750	1,200	500	4,450
Gan Yavne Youth Village, Gan Yavne	-	-	-	-	150	150
Hadassah Medical Center, Jerusalem	1,000	1,000	850	1,500	1,500	5,850
Jerusalem College of Technology	-	-	-	250	-	250
Kfar Silver, Ashkelon	-	-	-	200	-	200
Laniado Hospital, Netanya	-	-	-	-	500	500
Or Hachayim Girls College, Bnai-Brak	-	150	-	-	-	150
Ohr Somayach School, Jerusalem	-	-	-	-	1,000	1,000
Shaare Zedek Hospital, Jerusalem	-	-	500	500	-	1,000
Italy	250	225	200	325	350	1,350
Bologna Center of Johns Hopkins University, Bologna	250	225	200	325	350	1,350
Jamaica	-	-	-	625	-	625
St. George's Colle , Kingston	-	-	-	625	-	62[illegible]

COUNTRY AND INSTITUTION	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	TOTAL
Jordan	-	200	-	400	250	850
American Center for Oriental Research, Amman	-	200	-	400	250	850
Korea	1,250	1,150	300	800	1,300	4,800
Kwangju Christian Hospital	-	-	-	250	-	250
Presbyterian Medical Center, Jeonju	450	200	200	-	400	1,250
Sogang University, Seoul	800	950	-	550	-	2,300
Soong Jun University, Seoul	-	-	-	-	900	900
St. Joseph's Girls High School, Cholla Nam Do	-	-	100	-	-	100
Lebanon	4,375	4,000	4,250	5,000	5,350	22,975
American University of Beirut	3,500	4,000	4,000	5,000	5,000	21,500
Beirut University College	375	-	-	-	350	725
International College of Beirut	500	-	250	-	-	750
Liberia	750	-	900	650	600	2,900
Cuttington University College, Suacoco	750	-	900	650	600	2,900
Malawi	750	400	-	-	700	1,850
Malamulo Hospital, Makwasa	750	400	-	-	700	1,850
Mexico	-	700	-	1,500	-	2,200
American British Cowdray Hospital, Mexico City	-	-	-	1,000	-	1,000
University of the Americas, Puebla	-	700	-	500	-	1,200
Philippines	-	1,190	1,300	1,200	1,100	4,790
Ateneo de Davao University, Davao City	-	1,190	-	-	250	1,440
Ateneo de Manila University, Quezon City	-	-	-	1,200	-	1,200
Ateneo de Zamboanga, Zamboanga City	-	-	-	-	850	850
De La Salle University, Manila	-	-	800	-	-	800
Si .iman Universi' . Dumaguete City	-	-	500	-	-	5

COUNTRY AND INSTITUTION	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	TOTAL
Poland	-	300	150	750	250	1,450
American Children's Hospital, Krakow	-	300	150	750	250	1,450
Rwanda	-	-	575	-	-	575
Mugonero Hospital, Kibuye	-	-	575	-	-	575
Sudan	-	-	-	425	-	425
Loyola Secondary School, Wau, Bahr el Ghazel	-	-	-	425	-	425
Thailand	1,075	960	500	1,225	700	4,460
Bangkok Adventist Hospital	-	-	-	725	700	1,425
Payap College, Chiang Mai	1,075	960	500	500	-	3,035
Turkey	1,205	750	550	680	650	3,835
Admiral Bristol Hospital, Istanbul	930	750	550	400	650	3,280
Robert College, Istanbul	275	-	-	280	-	555
West Bank	750	-	-	1,000	-	1,750
Bethlehem University, Bethlehem	-	-	-	1,000	-	1,000
Mount of David Children's Hospital, Bethlehem	750	-	-	-	-	750
Zaire	130	-	550	715	550	1,945
Good Shepherd Hospital, Kananga	130	-	550	715	550	1,945
Zambia	300	-	-	600	690	1,590
Mwami Adventist Hospital, Chipata	300	-	-	600	690	1,590
Worldwide	1,500	2,350	2,200	2,500	3,350	11,900
Project HOPE Schools of Health Sciences	1,500	1,600	1,500	1,500	1,500	7,600
Project ORBIS	-	750	700	1,000	1,850	4,300
TOTALS:	20,000	20,000	20,000	30,000	30,000	120,000

PREPARED STATEMENT OF NEAL PEDEN

ASSISTANT ADMINISTRATOR

BUREAU FOR PRIVATE ENTERPRISE

AGENCY FOR INTERNATIONAL DEVELOPMENT

INTRODUCTION

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I APPRECIATE THE OPPORTUNITY TO PRESENT THIS STATEMENT ON BEHALF OF THE BUREAU FOR PRIVATE ENTERPRISE OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT.

THE BUREAU FOR PRIVATE ENTERPRISE SERVES AS THE CATALYST FOR THE ADMINISTRATION'S PRIVATE ENTERPRISE INITIATIVE IN FOREIGN ECONOMIC ASSISTANCE. THIS INITIATIVE SEEKS TO MOBILIZE PRIVATE SECTOR SKILLS AND RESOURCES IN ORDER TO MEET BASIC HUMAN NEEDS AND OTHER DEVELOPMENT OBJECTIVES THROUGH SELF-SUSTAINING ECONOMIC GROWTH IN DEVELOPING COUNTRIES.

MY STATEMENT WILL DESCRIBE THE PROGRAM IN TERMS OF ITS RATIONALE, STRATEGIES, AND MAJOR ACCOMPLISHMENTS; THE BUREAU'S USE AND DEVELOPMENT OF A.I.D.'S PRIVATE SECTOR REVOLVING FUND; ITS SECTORAL PRIORITIES; AND ITS FUTURE PLANS AS PROJECTED IN THE BUREAU'S FISCAL YEAR 1987 APPROPRIATION REQUEST.

RATIONALE BEHIND INITIATIVE

AS A RESOURCE TRANSFER, FOREIGN ASSISTANCE CAN ONLY HAVE LIMITED, AND USUALLY SHORT-TERM, IMPACT. BUT, COUPLE THAT SAME RESOURCE TRANSFER -- GOODS OR DOLLARS -- WITH THE TRANSFER OF TECHNOLOGY FOR DEVELOPMENT OF PRIVATE ENTERPRISE AND THE POTENTIAL FOR SELF-RELIANT, LONG-TERM, SUSTAINABLE ECONOMIC GROWTH IS INCREASED MANY TIMES OVER.

A.I.D.'S PRIVATE ENTERPRISE INITIATIVE IS BASED NOT ONLY ON THE HISTORIC RECORD OF ECONOMIC PROGRESS ACHIEVED THROUGH PRIVATE ENTERPRISE IN OUR OWN COUNTRY, BUT ALSO ON THE RECENT EXPERIENCE OF MANY DEVELOPING COUNTRIES. THIS EXPERIENCE DEMONSTRATES THAT DEVELOPING COUNTRIES THAT HAVE ENCOURAGED PRIVATE ENTERPRISE AND COMPETITIVE MARKETS HAVE, OVER THE PAST DECADE, ACHIEVED PER CAPITA GROWTH RATES AT MORE THAN TWICE THE LEVELS OF DEVELOPING COUNTRIES THAT HAVE RELIED ON ECONOMIES CONTROLLED AND DIRECTED BY GOVERNMENTS. SOME NATIONS, NOTABLY TAIWAN AND KOREA, HAVE USED MARKET FORCES TO POWER A DRAMATIC TRANSITION FROM A.I.D. RECIPIENT TO A.I.D. GRADUATE. INVIGORATION OF A COUNTRY'S PRIVATE SECTOR HAS DIRECT BENEFITS FOR THE MAJORITY OF ITS PEOPLE, INCLUDING THOSE FROM LOWER ECONOMIC STRATA.

IN IMPLEMENTING ITS PRIVATE SECTOR STRATEGY, A.I.D. HAS CONCENTRATED ON ACTIVITIES THAT FULLY SUPPORT THE CONGRESSIONAL MANDATE TO IMPROVE THE LIVES OF THE POOR MAJORITY IN A.I.D.-ASSISTED COUNTRIES. THE EMPHASIS IS ON JOB CREATION AND INCOME EXPANSION, ESPECIALLY IN LABOR-INTENSIVE SMALLER ENTERPRISES IN RURAL AREAS; HUMAN RESOURCES DEVELOPMENT THROUGH SKILLS TRAINING; AND SELF-HELP HOST COUNTRY POLICIES THAT BEST PROMOTE SELF-PROPELLING AND EQUITABLE GROWTH THAT REACHES THE LARGEST NUMBER OF PEOPLE. THE PRIVATE SECTOR INITIATIVE, FROM INCEPTION, HAS FOCUSED ON AGRIBUSINESS AS A KEY PROVIDER OF JOBS, INCREASED INCOME, AND VALUE-ADDED AGRICULTURAL EXPORTS AS WELL AS A STIMULUS FOR DEVELOPING COUNTRIES' FARM INCOME AND PRODUCTION.

THE BUREAU FOR PRIVATE ENTERPRISE (PRE), THROUGH ITS PROGRAM AND PROJECT PORTFOLIO, ITS MISSION SUPPORT ACTIVITIES, AND THE PRIVATE SECTOR REVOLVING FUND, PROVIDES SUPPORT FOR THE ESTABLISHMENT AND GROWTH OF INDIGENOUS PRIVATE ENTERPRISES IN DEVELOPING COUNTRIES AS A COST EFFECTIVE MEANS OF ACHIEVING BROAD-BASED, SELF-SUSTAINING ECONOMIC GROWTH AND DEVELOPMENT. UNITED

States and developing country private business resources are leveraged to make a vital contribution to this development through job creation, increased productivity, transfer of technology and management expertise, and the generation of additional and diversified products to meet internal demand and expand export earnings.

The Bureau for Private Enterprise

The Bureau for Private Enterprise (PRE) was established by A.I.D. Administrator McPherson in July 1981, to serve as the Agency's leader, motivator, educator, and laboratory for implementing the newly instituted private sector initiative. Since its creation, PRE's activities have been focused on improving the business climate, strengthening financial structures and capital markets, transferring technology, providing training, and increasing developing countries' exports.

The Bureau now consists of four separate elements. New private sector activities are developed and managed by three units, the Office of Project Development (including the Cooperative Development Organization activity), the Office of Program Review, and the Office of Investment. A fourth element, the Office of Housing and Urban Programs, is an older unit of A.I.D. which was transferred when the Bureau was established. Its activities mark an early and successful agency effort to mobilize private resources for development. A review of that Office's activities appears later in this statement.

FY 1985 was a year of transition for PRE. A.I.D. revised its Private Enterprise Development Policy Paper, and the Bureau for Private Enterprise began to work more closely with other A.I.D. Bureaus and to direct its efforts to integrating the private

ENTERPRISE APPROACH AND PERSPECTIVE INTO THE MAINSTREAM OF A.I.D.'S PROGRAMS IN AGRICULTURE, RURAL DEVELOPMENT, NUTRITION, HEALTH, EDUCATION, ENERGY, AND OTHER FIELDS.

Bureau Strategy Summary

Over the past five years, the PRE Bureau has been charged with developing new projects and programs that not only provide specific development benefits on their own, but which may serve as models for replication or expansion by A.I.D. field missions. Bureau for Private Enterprise loan projects are designed almost exclusively for smaller enterprises that provide jobs, wages and opportunities in their areas. Congressional guidelines for the Private Sector Revolving Fund, which funds major PRE investments, specify small business and cooperative beneficiaries.

As is the rest of A.I.D., the Bureau for Private Enterprise is now placing an increased emphasis on the transfer of production and service functions from public organizations to private enterprises. This is reflected in the revised Policy Paper on Private Enterprise Development (March 1985), in which A.I.D. Bureaus and Missions are asked to identify situations in which private enterprise can be used as an effective mechanism through which foreign assistance may be delivered.

PRE's present strategy to achieve the full integration of the private enterprise approach into Agency programming will entail a systematic expansion of activities in policy dialogue and change; market development; agribusiness; transfer, adaptation and commercialization of technology; and training in business development. It will mean full implementation of PRE's new Mission support technical assistance projects in the areas of private enterprise strategy, financial markets development, and

DIVESTITURE AND PRIVATIZATION. EVALUATION ACTIVITIES WILL BE EXPANDED AND SYSTEMATIZED.

MAJOR ACCOMPLISHMENTS

ONE OF THE MOST IMPORTANT ACCOMPLISHMENTS DURING THE BUREAU'S THREE YEAR (FYS 1982-1985) START-UP PHASE WAS ITS IMPACT ON A.I.D. ITSELF. FOR THE FIRST TIME, EXAMINATION OF PROJECTS AND PROGRAMS TO IDENTIFY OPPORTUNITIES FOR SPECIFICALLY USING PRIVATE ENTERPRISE ALTERNATIVES, IN LIEU OF TRADITIONAL DELIVERY MECHANISMS, BECAME AGENCY-WIDE PRACTICE.

THE BUREAU HAS ALSO DEVELOPED PROJECTS AND PROGRAMS THAT NOT ONLY PROVIDE SPECIFIC DEVELOPMENT BENEFITS ON THEIR OWN BUT MAY SERVE AS MODELS FOR REPLICATION OR EXPANSION BY A.I.D. FIELD MISSIONS.

PRE HAS INTRODUCED NEW LENDING INSTITUTIONS INTO THE A.I.D. PORTFOLIO, THUS ENHANCING THE AGENCY'S HISTORIC INSTITUTION-BUILDING CAPABILITIES. THIS INCLUDES ARRANGEMENTS WITH PRIVATE COMMERCIAL BANKS, LEASING COMPANIES, VENTURE CAPITAL FIRMS, AND OTHER ORGANIZATIONS THAT OPERATE ON MARKET CONCEPTS.

THESE INSTITUTIONS HAVE BEEN USED TO REACH SMALL AND MEDIUM-SIZED, MAINLY RURAL, PRIVATE ENTERPRISES. THIS IS A DYNAMIC FORCE FOR DEVELOPMENT WHICH IS OFTEN OVERLOOKED IN OFFICIAL DONOR PROGRAMS. THE IMPACT OF THESE ENTERPRISES ON JOB AND INCOME GENERATION CAN REVERBERATE THROUGHOUT LOCAL ECONOMIES. THE KENYA COMMERCIAL BANK PROJECT AND A SIMILAR ARRANGEMENT WITH SIAM COMMERCIAL BANK IN THAILAND, FOR EXAMPLE, ARE IN THE PROCESS OF GENERATING SOME 1500 NEW JOBS AND INCREASED INCOME IN RURAL AREAS OF THOSE COUNTRIES. BY SINGLING OUT THESE ENTERPRISES, A.I.D.'S EFFORTS HAVE BEEN PLACED SQUARELY BEHIND AN INNOVATIVE,

ENTREPRENEURIAL, LABOR-INTENSIVE AND COMPETITIVE SEGMENT OF THE THIRD WORLD PRIVATE SECTOR.

IN WORKING WITH PRIVATE INSTITUTIONS TO OPEN NEW CREDIT AVENUES FOR SMALLER BUSINESSES, AND INDIVIDUAL ENTREPRENEURS, THE BUREAU IS HELPING TO FILL GAPS IN THE INDIGENOUS CAPITAL MARKET STRUCTURE ON WHICH, IN LARGE PART, ACCELERATED ECONOMIC GROWTH DEPENDS.

PRE HAS INSTITUTED MARKET, OR ABOVE-MARKET INTEREST RATES IN THE REVOLVING FUND LENDING PROGRAM. BY REMOVING THE SUBSIDY ELEMENT, SELF-SUFFICIENCY ON THE PART OF OUR BORROWERS IS MORE LIKELY TO RESULT.

STARTING IN DECEMBER 1984, THE BUREAU, WORKING WITH THE A.I.D. TRAINING DIVISION, PUT ON AN INTENSIVE, FIRST-EVER TRAINING COURSE FOR A.I.D. OFFICERS WITHOUT BUSINESS BACKGROUNDS WHO HAVE COLLATERAL PRIVATE SECTOR RESPONSIBILITIES. THIS COURSE IS NOW GIVEN SEVERAL TIMES A YEAR AND THERE IS WORK IN MOTION TO CARRY IT TO THE FIELD. THE COURSE SHOWS HOW BUSINESS SKILLS CAN BE APPLIED TO DEVELOPMENT SITUATIONS AND DEALS WITH BROAD POLICY QUESTIONS AS WELL. PARTICIPANTS CONSISTENTLY PRAISE THE COURSE AND FEEL IT GIVES THEM VALUABLE NEW TOOLS WITH WHICH TO MEET DEVELOPMENT GOALS IN THE FIELD FROM A NEW PRIVATE SECTOR-ORIENTED PROGRAMMING PERSPECTIVE.

PRIVATE SECTOR REVOLVING FUND

MAJOR BUREAU LOANS ARE CHANNELED THROUGH THE PRIVATE SECTOR REVOLVING FUND. WITH THE HELP AND SUPPORT OF THIS SUBCOMMITTEE, THIS MECHANISM WAS ESTABLISHED BY CONGRESS IN ORDER TO ASSURE A BUSINESSLIKE, ACCOUNTABLE INVESTMENT PROGRAM AND, ULTIMATELY, TO PUT BUREAU LOANS ON A SELF-REPLENISHING BASIS. A LOAN REVIEW

BOARD, COMPOSED OF SIX PRIVATE SECTOR INVESTMENT AND BANKING EXECUTIVES, EXAMINES EACH PROPOSAL FOR FINANCIAL VIABILITY AND CONFORMITY WITH CREDIT STANDARDS BEFORE IT IS APPROVED.

A MAJOR FEATURE OF THESE INVESTMENTS IS THE LEVERAGING ASPECT BY WHICH A.I.D. FUNDS ARE COMPLEMENTED BY PRIVATE RESOURCES. THIS OCCURS WHEN PRE LOAN FUNDS ARE MATCHED BY INTERMEDIATE FINANCIAL INSTITUTIONS (IFIS) TO CREATE LOAN POOLS FOR TARGETED BORROWERS OR, IN THE CASE OF DIRECT LOANS, ARE THE CATALYST FOR BRINGING TOGETHER OTHER INVESTORS. ON THE AVERAGE, REVOLVING FUND PROJECTS HAVE TRIGGERED $2.50 TOTAL PROJECT DOLLARS FOR EACH A.I.D. DOLLAR. HOWEVER, THIS DOES NOT TAKE INTO ACCOUNT THE INTRODUCTION OF ADDITIONAL PRIVATE FUNDS FROM A MULTITUDE OF BORROWERS FROM A.I.D./IFI LOAN POOLS WHO PUT THEIR OWN MONEY INTO THE PROJECTS BEING FINANCED. MOST BUREAU INVESTMENTS FLOW TO IFIS. THEREFORE, THE LEVERAGING EQUATION FOR THE REVOLVING FUND IS CLOSER TO 1 OF 4 OR 5, RATHER THAN 1 OF 2.5.

THE FIRST REVOLVING FUND LOAN WAS APPROVED IN APRIL 1984. IN FYS 1984 AND 1985, PRE MADE 19 MAJOR INVESTMENTS AND ONE BRIDGE FINANCING LOAN TO ENCOURAGE DIVERSIFICATION AND PRIVATIZATION. THESE ACTIVITIES TOTALED $35 MILLION. SEVENTEEN OF THE LOANS (VALUED AT $30.5 MILLION) WERE THROUGH THE REVOLVING FUND. THESE MET THE CRITERIA OF DEMONSTRATING NEW FINANCING TECHNIQUES, GENERATING EMPLOYMENT, STRESSING APPROPRIATE TECHNOLOGY, USING PRE FUNDS TO LEVERAGE ADDITIONAL FUNDS AND PROVIDING THE LOANS AT MARKET OR NEAR-MARKET INTEREST RATES. FOR FURTHER DETAILS ON REVOLVING FUND ACTIVITIES, I REFER YOU TO THE ADMINISTRATOR'S ANNUAL REPORT ON THE FUND, SENT TO CONGRESS AT THE END OF CALENDAR 1985, WHICH ACCOMPANIES THIS STATEMENT.

FY 1987 Request

The Bureau for Private Enterprise is requesting $42.0 million in fiscal year 1987. This consists of $35.5 million for its new private enterprise activities and $6.5 million for the Office of Housing and Urban Programs. It does not include $10.0 million requested for the Housing Guaranty Reserve Fund.

The requests break down as follows:

Private Sector Revolving Fund and supporting grants ($13.5 million in loans; $900,000 in grants) -- Revolving Fund investments will place major emphasis on three priorities:

(1) Capitalization or expansion of intermediate financial institutions (IFIs) including export trading companies, for on-lending and services to micro, small and medium-sized enterprises. Small entrepreneurs have high impact on job creation and outreach to the poor. A primary emphasis will be placed on expanding the geographical coverage of loan projects.

(2) Capitalization of agribusinesses which add value to agricultural produce for export. There will be a focus on those which can bring technical assistance, production inputs, credit and marketing services to small growers. PRE's Agribusiness Investment Corporation project for Latin America, the Caribbean and Africa, begun in August 1985 is an example of implementation of this concept. Prime beneficiaries are farmers and small agriculture-related businesses.

(3) Increased acceleration of the Bureau's Commercialization of Technology Program. Creation of small venture funds for technology development leading to production for developing country markets is one objective. A private sector Technology

REVIEW BOARD, SIMILAR TO THE EXISTING LOAN REVIEW BOARD, HAS BEEN FORMED TO SCREEN ALL PROPOSALS FOR THIS PROGRAM.

MISSION SUPPORT ACTIVITIES ($9.34 MILLION) -- DRAWING ON THE EXPERIENCE OF ITS FIRST THREE YEARS IN SUPPORTING THE PRIVATE SECTOR DEVELOPMENT EFFORTS OF A.I.D. MISSIONS, THE BUREAU DECIDED IN MID-1985 TO DEVOTE A SUBSTANTIAL PROPORTION OF ITS TOTAL RESOURCES TO A LARGE-SCALE, CONTRACTOR-BASED MISSION SUPPORT CAPABILITY IN THREE RELATED AREAS: PRIVATE SECTOR STRATEGY DEVELOPMENT, FINANCIAL MARKET DEVELOPMENT, AND DIVESTITURE AND PRIVATIZATION. IN EACH OF THESE AREAS, MISSIONS ARE ABLE TO OBTAIN SUSTAINED, HIGH-QUALITY CONSULTING SUPPORT. THE GOAL IS TO PERMIT EACH MISSION TO TAILOR ITS PRIVATE SECTOR PROGRAM DEVELOPMENT TO LOCAL NEEDS AND CONDITIONS, TO BUILD POLICY DEVELOPMENT TO LOCAL NEEDS AND CONDITIONS, AND TO BUILD POLICY DIALOGUE WITH HOST GOVERNMENTS ON THE BASIS OF EXPERT ANALYSES DRAWN FROM THE U.S. FINANCIAL AND INVESTMENT BANKING COMMUNITIES. IN MANY CASES, PRIVATE ENTERPRISE DEVELOPMENT WILL DEPEND ON CHANGES IN POLICIES AND REGULATIONS THAT CONSTRAIN THE OPERATION OF FINANCIAL MARKETS AND THE FLOW OF FOREIGN INVESTMENT.

THE PRE PRIVATIZATION SUPPORT CONTRACT ENABLES A.I.D. MISSIONS TO RESPOND TO HOST GOVERNMENT REQUESTS FOR HELP IN PRIVATIZING AND DIVESTING PUBLIC SECTOR ENTITIES. THE BUREAU BELIEVES THIS IS A SIGNIFICANT OPPORTUNITY FOR ENGAGING PRIVATE ENTERPRISES IN THE DEVELOPMENT PROCESS, AND INTENDS TO TAKE FULL ADVANTAGE OF IT. TO FURTHER ASSIST THE MISSIONS IN THE FIELD OF FINANCE AND CAPITAL MARKETS, PRE, IN 1986, HAS BEGUN TO EXPAND TRAINING IN THESE SUBJECTS FOR ITS OWN AND MISSION STAFF. A PRIVATIZATION CONFERENCE, IN FEBRUARY 1986, DREW OVER 450 PARTICIPANTS FROM ALL OVER THE WORLD. REQUESTS FOR INFORMATION AND TECHNICAL ASSISTANCE HAVE ACCELERATED CONSIDERABLY SINCE THE CONFERENCE.

Evaluation-- A sustained effort is being made systematically to evaluate all projects and programs of the PRE Bureau, especially the Revolving Fund. Many of these activities are only now coming to the stage where results can be measured. Evaluation results will guide future programming and design. Because of the experimental nature of the Bureau's program, evaluations are essential not only to improve future Bureau programming but to encourage the replication by field Missions of Bureau projects that have been tested and refined.

Core Support for US Business Development Organizations ($11.76 million) -- A substantial proportion of the PRE budget is committed as core grant support for U.S. nonprofit organizations working toward cooperative and business development in the third world. PRE currently funds six cooperative development organizations, as well as the International Executive Service Corps (IESC), an organization whose purpose is to provide management expertise to third world enterprise. PRE core support permits these organizations to extend technical expertise to a much larger number of recipients than would be possible otherwise. Currently, some 700 third world businesses are receiving assistance from IESC volunteers. Tens of thousands of developing country cooperatives have received assistance through PRE-supported cooperative development organizations. The Private Enterprise Bureau has begun a cycle of evaluation studies that will eventually cover all organizations receiving core support. The results of these evaluations will guide future programming and funding requirements in this area.

Office of Housing and Urban Programs ($6.5 million) -- The Bureau requests $6.5 million for this office to meet its expanded responsibilities. The Office of Housing and Urban Programs seeks to help meet the demand for affordable housing in an increasingly

URBANIZED WORLD, AND FOR MANAGING URBAN GROWTH. WORLD BANK STUDIES INDICATE THAT WITHIN 15 YEARS, MORE THAN HALF OF THE ABSOLUTE POOR WILL BE CONCENTRATED IN URBAN CENTERS. MOST OF THESE FAMILIES LIVE IN OVERCROWDED CONDITIONS IN MAKESHIFT SQUATTER SETTLEMENTS OR SLUMS. FEW HAVE ACCESS TO CLEAN DRINKING WATER OR SANITATION.

A.I.D. HAS BEEN A LEADER IN ADDRESSING THESE PROBLEMS. IT HAS USED THE RESOURCES OF THE HOUSING GUARANTY PROGRAM AS LEVERAGE TO INDUCE SIGNIFICANT POLICY REFORM IN THE HOUSING SECTORS OF 44 COUNTRIES. THESE REFORMS HAVE BEEN TARGETED AT THE RECOVERY OF COSTS, ECONOMIC PRICING AND INTEREST RATE POLICIES, AFFORDABLE DESIGN AND CONSTRUCTION STANDARDS FOR LOW-COST SHELTER, AND MORE RATIONAL ALLOCATION OF RESOURCES, WHICH HAVE OPENED UP HOME-OWNERSHIP OPPORTUNITIES FOR THE WORKING POOR.

PRE'S OFFICE OF HOUSING AND URBAN PROGRAMS HAS DEVELOPED UNIQUE EXPERTISE WITHIN THE U.S. GOVERNMENT CONCERNING SHELTER FINANCE AND URBAN DEVELOPMENT IN THE THIRD WORLD. SINCE THE EARLY 1970S, THE HOUSING GUARANTY PROGRAMS HAVE BEEN USED SUCCESSFULLY IN POLICY DIALOGUE TO MOVE DEVELOPING COUNTRY GOVERNMENTS AWAY FROM COSTLY HOUSING CONSTRUCTION AFFORDABLE ONLY TO THE RELATIVELY WELL-TO-DO AND TOWARD SITES-AND-SERVICES PROJECTS, NEIGHBORHOOD UPGRADING, AND HOME IMPROVEMENT PROGRAMS DESIGNED TO ASSIST THE POOR TO UPGRADE THEIR HOUSING. THE SITES-AND-SERVICES APPROACH, PIONEERED BY A.I.D., IS NOW THE STANDARD FOR SHELTER FINANCING BY DEVELOPING COUNTRIES, INCLUDING PROJECTS FINANCED BY OTHER MAJOR DONORS.

AS PART OF THE OVERALL EXECUTIVE BRANCH EFFORTS TO CURTAIL GUARANTY PROGRAMS, A.I.D. IS NOT REQUESTING AUTHORITY TO ISSUE NEW GUARANTIES FOR FY 1987 AND BEYOND. HOWEVER, A.I.D. IS NOT ABANDONING THE SHELTER AND URBAN SECTOR; RATHER, WE WILL WORK

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TOWARD AN ORDERLY TRANSITION FROM GUARANTY FINANCING TO OTHER SOURCES OF FINANCING FOR A.I.D.'S SHELTER AND URBAN EFFORTS.

PRE/H-APPROPRIATED GRANT FUNDS HAVE BEEN UTILIZED PRIMARILY FOR TECHNICAL ASSISTANCE AND TRAINING IN SUPPORT OF THE SAME GOALS AS THE HG PROGRAM. PRE/H HAS ALSO ASSUMED RESPONSIBILITY FOR THE AGENCY'S URBAN DEVELOPMENT INITIATIVE WHICH IS CONCERNED WITH A SIGNIFICANT DEVELOPMENT ISSUE--THAT OF RAPID URBANIZATION IN THE THIRD WORLD.

THE BUDGET REQUEST FOR THE OFFICE OF HOUSING AND URBAN PROGRAMS BREAKS DOWN AS FOLLOWS: HOUSING THE URBAN POOR ($1.5 MILLION); URBAN DEVELOPMENT SUPPORT SERVICES ($1.5 MILLION); PROJECT DEVELOPMENT AND SUPPORT ($1.0 MILLION); SHELTER AND URBAN DEVELOPMENT TRAINING ($1.5 MILLION); DEVELOPMENT OF SECONDARY TOWNS ($1.0 MILLION); AND HOUSING GUARANTY RESERVE FUND ($10.0 MILLION).

<u>REPLENISHMENT OF THE RESERVE FUND</u> ($10 MILLION) -- THE FUNDS REQUESTED FOR FY 87 ARE TO REPLENISH THE HG PROGRAM RESERVE ACCOUNTS. HG RESERVES ARE USED TO PAY CLAIMS OF U.S. LENDERS WHEN DEVELOPING COUNTRY BORROWERS FAIL TO MAKE THEIR DEBT SERVICE PAYMENTS ON SCHEDULE.

PUBLIC DEBT RESCHEDULING IS HAVING AN INCREASING IMPACT ON THE HG RESERVE ACCOUNT. IN SUCH CASES, HG RESERVES ARE USED TO SERVICE THE DEBT DURING THE AGREED DEBT DEFERRAL PERIOD. THEREAFTER, THE DEFERRED DEBT IS REPAID TO THE HG RESERVE ACCOUNT PLUS INTEREST. ON THE ASSUMPTION THAT SOVEREIGN NATIONS AS A WHOLE WILL CONTINUE TO HONOR THEIR DEBTS, THESE FUNDS WILL BE RECOVERED. HOWEVER, FOR THE IMMEDIATE FUTURE, THE HG RESERVES NEED TO HAVE SUFFICIENT LIQUID CASH ASSETS TO MEET DEMANDS OF DEBT RESCHEDULING.

CONCLUSION

MR. CHAIRMAN, THE BUREAU FOR PRIVATE ENTERPRISE, OPERATING WITH A SMALL STAFF AND BUDGET, HAS, WE BELIEVE, DEVELOPED AN INNOVATIVE, COST-EFFICIENT PROGRAM THAT HAS ENERGIZED AN AGENCY-WIDE EFFORT NOW BEGINNING TO SHOW MEASURABLE RESULTS. WE LOOK FORWARD TO WORKING IN CLOSE COOPERATION WITH THIS SUBCOMMITTEE AND THE CONGRESS AS A WHOLE IN ACCELERATING THE MOMENTUM OF THAT EFFORT. TOGETHER, WE CAN ASSURE THAT THE ADMINISTRATION'S PRIVATE SECTOR INITIATIVE WILL CONTINUE TO BE AN EFFECTIVE AND INTEGRAL COMPONENT OF THE FOREIGN ASSISTANCE PROGRAM.

ANNUAL REPORT

PRIVATE SECTOR REVOLVING FUND

AGENCY FOR INTERNATIONAL DEVELOPMENT

A. PRIVATE SECTOR REVOLVING FUND

1. Annual Report. The requirement for the annual report presented herewith is stated in Section 108(h) of the Foreign Assistance Act of 1961, as follows:

> "Not later than December 31 of each year, the President shall submit a comprehensive report which details all projects funded under this Section during the previous fiscal year, all reflows to the revolving fund account, a status report on all projects currently contained in the fund's portfolio. Such reports shall include, but not be limited to, information regarding numbers and kinds of beneficiaries reached, amounts and kinds of benefits provided by the funded projects to targeted populations, and a justification for projects within the context of the goals and objectives of the United States development assistance program."

2. AID's Private Sector Initiative. In 1981, the Agency for International Development (AID) initiated a program to encourage the increased use of private enterprise to stimulate growth and meet basic human needs in the developing world. These initiatives coincided with

mounting evidence that those developing countries which have relied primarily on the private sector and market forces for growth experienced more rapid economic progress, by and large, than those which have relied primarily on the public sector and government controls. This more rapid economic progress, in turn, was often more widely diffused, thereby promoting the development of small businesses, generating employment, and expanding participation of women in entrepreneurial initiatives. Many countries that once neglected the private sector and have suffered poor economic performance thus were rethinking their overall development strategies. This reassessment became even more crucial in the face of a then-gathering world recession. Capitalizing on these trends, AID has steadily increased its emphasis on projects and programs that activate market forces and that encourage host-country environments conducive to private investment and private entrepreneurial activities which spur both economic and social progress.

3. Rationale For The Revolving Fund. AID's recently formed Bureau for Private Enterprise (PRE) was charged with designing innovative private enterprise projects which, when field-tested, would not only provide their own immediate benefits but would also serve as prototypes for projects initiated by the rest of the Agency. In 1983, Administrator M. Peter McPherson asked Congress to establish a Private Sector Revolving Fund through which PRE's growing portfolio could be channeled. The rationale for establishing such a revolving fund was as follows:

- To ensure program accountability by joining responsibility and performance (making the program's financial integrity and level of activity depend on reflows from viable projects);

- To encourage participation in the program by the private sectors in the United States and in the developing countries through procedures which demonstrate "bottom line" results;

- To permit growth in the program without the

expenditure of additional tax dollars (through recovery of principal, interest and fees, and temporary investment of these proceeds in United States Treasury obligations until commitment to new development loans); and

- To ensure flexibility in the program by freeing disbursement schedules from fiscal year appropriations limitations, thus providing greater leeway for AID to seize innovative investment opportunities to increase employment, incomes, generation of foreign exchange, technology transfer, and other benefits.

4. Authorizing Legislation. The Private Sector Revolving Fund was authorized by the International Security and Development Assistance Authorizations Act of 1983 (Section 101(b)(2) of the Further Continuing Appropriations, 1984, Public Law 98-151), signed on November 14, 1983, and incorporated as Section 108 of the Foreign Assistance Act of 1961, as amended.

Section 108 declares that private enterprise development "is a vital factor in the stable growth of developing countries", and further, that it is in the best interests of the United States "to assist the development of the private sectors in developing countries and to engage the United States private sector in that process". To promote such development, the President was authorized to establish a "Revolving Fund Account" in the Treasury.

Section 108 specifies certain types of activities that the revolving fund may support. These include activities that have a demonstration effect (that is, can be replicated by AID field missions, financial institutions, and others), are innovative, are financially viable, will maximize development impact particularly in employment and the use of appropriate technology, and are directed primarily to providing support and services not otherwise available to small business enterprises and cooperatives.

Other requirements for projects include: no more than $3,000,000 may be provided by the U.S. Government for any

one project; a "substantial portion" of the financial support for each project must come from host country sources; no more than 20 percent of revolving fund assets may support projects in any one country; loans must be made primarily to intermediary institutions serving the private sector; loans must be made at or near the interest rate "otherwise available to the recipient".

5. Funding. To capitalize the revolving fund, Congress authorized the transfer to the fund of up to US$20 million per year in FYs 1984 - 86 from AID's development assistance accounts. In addition, interest and fees, and earnings on revolving fund reflow assets were also to be deposited in the revolving fund account. Ultimately, Congress expected that the revolving fund's reflows would make it self-sustaining and would eliminate the need for additional transfer authority. Once the fund reaches assets of US$100 million, the maximum statutory size of the fund, earnings will be returned to the Treasury. In fact, AID will use only US$46.5 million of the US$60 million in available transfer authority during FYs 1984 - 86, mainly because other AID program requirements have been more pressing.

B. ADMINISTRATION OF THE FUND

1. Management. Management responsibility for the Private Sector Revolving Fund rests with AID's Bureau for Private Enterprise (PRE), under broad direction of the Administrator of the Agency. The Bureau consults with other AID bureaus and field missions as appropriate. The Assistant Administrator, Bureau for Private Enterprise, has overall responsibility for the fund's operations. The Senior Deputy Assistant Administrator serves as managing director of the fund and oversees portfolio priorities, investment approvals, and financial operations, including investment of fund assets in interest-bearing U.S. Treasury obligations. The investment of fund assets is undertaken in coordination with the Agency's Loan Management Division, Office of Financial Management (M/FM/LMD). The director of the Office of Investment of the Bureau for Private Enterprise (PRE/I) handles day-to-day operation of the revolving fund.

2. Development of Projects. Projects included for financing by the revolving fund are developed by PRE/I

investment officers with full coordination and consultation with affected AID field missions. Representatives of AID's General Counsel's Office handle legal matters connected with the Bureau and are heavily involved in the negotiation process. Working within the mandate of the revolving fund legislation, the Bureau's Office of Investment develops criteria by which to identify, screen, analyze and design proposals.

3. Internal Review Procedures. The Bureau for Private Enterprise has formalized an internal review procedure for proposals recommended by investment officers for revolving fund financing. The lead group is the Bureau's Portfolio Review Committee. It includes the Assistant Administrator; Senior Deputy Assistant Administrator; Director, Office of Investment; as well as representatives of AID's Bureau for Program and Policy Coordination and affected regional and centrally funded bureaus as appropriate.

This committee first reviews the project as an Investment Opportunity Proposal (IOP). The review focuses on the project's suitability from the standpoint of the revolving fund and of the development strategy for the affected country or countries. If the committee finds the project appropriate, further analysis and negotiations are undertaken by the parties involved. This leads to an Investment Proposal (IP), which again passes before the Portfolio Review Committee. The external Loan Review Board (see below) may review the proposal at either stage.

4. Loan Review Board. As part of its project review process, the Bureau for Private Enterprise in July 1983 established a Loan Review Board composed of private financial executives who are knowledgeable in all types of project financing in developing countries and their associated risks. The board reviews potential revolving fund investments as to financial viability, conformity to investment credit standards, and "packaging" for maximum effect. The board has reviewed all loans made from the revolving fund. During FY 1985, it met four times. The board's recommendations, while not binding on the Bureau,

have been of significant assistance in the development of sound, creditworthy investments.

5. Investment of Revolving Fund Assets. The reflows of interest, fees, and principal to the revolving fund are available for investment in U.S. Government securities. In FY 85, approximately $89 thousand in interest and fees was invested. Principal reflows, however, will not begin until late FY 86 due to grace periods on principal repayments which vary in accordance with specific terms negotiated for each loan. Reflows in size sufficient to finance new loan commitments are not expected before FY 1988 or 1989.

The pace of disbursement of revolving fund loans in these early years as the revolving fund gets underway began slowly, but is gaining momentum. A total of $3.1 million (21 percent of FY 84 appropriations) was disbursed as of the end of FY 85. The rate of disbursements should increase, however, as the fund grows.

Reflows received and investments outstanding as of September 30, 1985, are as follows:

REVOLVING FUND REFLOWS

FY 1985

Source	Amount
Fees	$32,800.00
Interest	$56,002.97
TOTAL	$88,802.97

REVOLVING FUND REFLOW INVESTMENT ACCOUNT

September 30, 1985

Private Sector Revolving Fund Account #72x4341

	Cost	Value	Indicated Annual Income	Estimated Annual Yield
Cash(1)	$ 4,598.18	$ 4,598.18	$ -	0%
Securities: U.S. TBills due 10/31/85	$84,204.79	$85,000.00	$6,800.00(2)	8.00%(2)
TOTAL	$88,802.97	$89,598.18	$6,800.00	7.59%

AID has taken two steps during FY 85 to improve the revolving fund reflow position: (1) loans were structured with shorter maturity and grace periods, and (2) profit participation was made a part of loan terms and conditions. The latter has been included in three of the FY 85 loans (Agribusiness Investment Corporation, Multifoods, and Societe Marocaine de Depot et Credit - see Section D). The average weighted maturity of the FY 85 loans is 4.7 years compared with 6.8 years for the FY 84 loans. (Please refer to Annex IV.) Grace periods on principal repayments have similarly been shortened from an average of 34 to an average of 29 months.

(1) Minimum purchase of T. Bills is $5,000.

(2) Approximate 1-year Treasury Bill yield @ 09/30/85.

The need to reduce the average maturity and grace period of revolving fund loans highlights a certain necessary conflict in the revolving fund concept, i.e., the goal of achieving significant development impact in a high risk environment versus the goal of a self-financing revolving fund dependent on short-term reflows to sustain future lending. The need for shorter maturities also has an adverse impact on the range of project opportunities which AID can consider and negotiate with LDC private businessmen. As the revolving fund grows, however, AID again will be able to extend maturities if it can maintain reflows large enough to provide $15 million annually for reobligation.

C. CHARACTERISTICS OF THE PORTFOLIO

1. Summary. The loan agreement for the first project financed from the Private Sector Revolving Fund account was signed by Administrator McPherson on April 10, 1984. Between then and the end of FY 1985 (September 30), 17 loans totaling $30.5 million had been approved and obligated. Nine of the revolving fund loans have grant components as an integral part of their project design. The nine grants total $1.42 million. These AID funds combined with funding from other sources helped activate investments totaling about $72.9 million, thus producing a leveraging ratio of 1 of 3.4 or one AID dollar out of every $3.39 invested.

This considerable increase over the FY 84 average leveraging ratio of 1 to 2.5 is attributable to the preponderance of intermediate financial institutions as loan recipients of FY 85 obligations as well as to continued interest in venture capital financing in which AID has taken only a 25-33% participation.

2. Types of Loans. Two general types of loans are used by the Office of Investment (PRE/I): (1) loans made to LDC private intermediate financial institutions (IFIs) and, (2) loans made directly either to private LDC businesses or to joint ventures between LDC and U.S. businesses.

The intermediate financial institution mode normally takes one of two forms. The first is a revolving fund loan directly to the IFI which, in turn, matches the AID loan in local currency, forming a pool of funds for subsequent on-lending to local private micro, small and/or medium-sized enterprises. The second form is a revolving fund loan which serves as collateral to guaranty a portion of the risk of subloans made by the IFI with its own funds. In both cases, the IFI provides all administrative support including subloan applicant review and approval, monitoring and implementation, as well as actual assumption or oversight of credit and foreign exchange risk, which risk may be passed on to subborrowers. (Section C.5 discusses the risk issue at greater length). In light of the requirements of Section 108, IFI loans comprise 14 of 17 loans finalized by PRE/I during FY

84-85, or 82% of the current portfolio by number and 88 percent in terms of loan principal.

A less commonly used loan structure for the revolving fund portfolio is the direct loan to a specific private LDC company. Only three such direct loans have been obligated thus far, comprising 18% of the current portfolio by number and 12% in dollar terms.

These direct loans are to projects ranging in size of total capitalization from $1.1 million to $10 million. Revolving fund assets committed range from 20% to 33% of the individual projects. With direct loans, the revolving fund carries full credit risk but not the foreign exchange risk as all revolving fund loans must be repaid in U.S. dollars.

Revolving fund loans can also be typed by objective. From this standpoint, the portfolio reflects many of AID's most important goals, i.e.:

- Financial institution development;
- Employment generation;
- Foreign exchange generation for the host country;
- Agribusiness/satellite farming development;
- Small and medium-scale business development;
- Export trade financing;
- Technology transfer;
- Capital market development;
- Health;
- Credit to micro businesses.

The loans also have positive implications for the achievement of United States development objectives in future years, i.e.:

- Leveraging of scarce AID funds through innovative financing mechanisms;

- Involvement of U.S. private industry in the development process; and

- A return on investment for the U.S. approximately equal to the cost of U.S. Government funds expended.

3. Collateral Account

Background. The Bureau for Private Enterprise developed the "Collateral Account" loan structure during the summer of 1984. The Office of Investment found during various project origination trips that there were many developmentally and commercially sound projects in AID-recipient countries that could benefit from AID financing, but only if the loan were structured in a way that minimized the foreign exchange risk to the borrower. Accordingly, PRE/I, working with AID General Counsel, devised a loan structure through which AID can lend and be repaid in U.S. dollars, but can at the same time mobilize extensions of needed local currency credit to the target beneficiary class without involving the conversion of AID loan proceeds into local currency, so long as the projects remain commercially viable.

Structure. There is no single standard Collateral Account loan structure. In fact, one of the Collateral Account's principal virtues is its flexibility in being designed for the particular needs of the borrower. There are, however, certain basic features. First, before any AID loan proceeds are disbursed, AID , the borrower, and a bank located in the United States ("Depository Bank") enter into a "Three-Party Agreement" which establishes an account in the borrower's name ("Collateral Account") to be held and managed by the depository bank. The three-party agreement also spells out whatever additional responsibilities the depository bank may be required to assume.

Upon the request of the borrower, AID disburses the requisite amount of loan proceeds into the Collateral Account. The depository bank invests those proceeds in a type of investment approved by AID, generally U.S. Treasury obligations. The depository bank then either issues or confirms a letter of credit guarantying an extension of local currency credit. The depository bank is willing to undertake the contingent liability associated with the letter of credit issuance or confirmation because, under the three-party agreement, the depository bank receives a security interest in the Collateral Account and the investments contained therein. This security interest assures the reimbursement of the

depository bank in the event a payment must be made under the letter of credit.

The borrower's interest obligation to AID under the loan agreement is measured in relation to the rate of earnings on the investments in the Collateral Account. The borrower will also generally pay a utilization fee for this facility which is measured as a percentage of the amount of investments in the Collateral Account that have been "blocked" (i.e., made subject to the depository Bank's security interest) to guaranty issued or confirmed letters of credit. The loan agreement, for example, may provide for interest at a rate equal to the yield of 180-day Treasury Bills plus a utilization fee equal to two percent of the average daily amount of Treasury bills utilized or blocked.

The loan agreement will also provide for an orthodox principal repayment schedule. The dollars in the Collateral Account are expected to serve as the borrower's source of repayment, and thus the terms of the depository bank letters of credit must result in enough Treasury Bills being unblocked to permit periodic disbursements to AID in accordance with the loan agreement's principal repayment schedule.

Two examples of the types of local currency loans that can be effected by a Collateral Account loan are PRE's FY 84 loans for low-cost health product production in Thailand and Indonesia ("PATH" project) and for term agricultural credit in Ecuador. In the PATH project, loan proceeds deposited in a U.S. bank serve as collateral to permit that bank's issuance of a standby letter of credit guarantying fifty percent of term local currency loans by Thai and Indonesian commercial banks to health product manufacturers in Thailand and Indonesia. As the local currency loans are repaid, the amount of the U.S. depository bank's outstanding liability under the standby letters of credit is reduced, thus releasing investments in the Collateral Account from the depository bank's security interest and making them available for disbursement to AID as principal repayments.

The Thai and Indonesia banks have the responsibility to ensure that the principal amortization schedules of the

local currency loans match the coverage reduction schedules of the standby letters of credit. The AID borrower has the responsibility to ensure that the letter of credit coverage reduction schedules match the principal amortization schedule in the AID loan agreement.

Unlike the PATH project, in which the local lending bank is the beneficiary of the letter of credit, the Ecuador project involves the guaranty of borrowings by two Ecuadorean financieras, or development banks. A serious constraint on the ability of the financieras to make long-term credit available to their customers is the financieras' inability to borrow on a long-term basis themselves. The beneficiaries of the letter of credit in this project, therefore, would be the purchasers of development bonds that may be issued by the financieras. The financieras would then be obligated under the AID loan agreement to lend the funds raised through the sale of these guarantied bonds to a designated class of target beneficiaries. As with the PATH project, the amortization schedule of the bonds would match the coverage reduction schedule of the letters of credit which in turn would match the financieras' principal repayment obligation under the loan agreement.

4. Loan Set Off Structure

Background. The Loan Set Off structure, developed by the Bureau for Private Enterprise in FY 85, represents a variation of the earlier mechanism and one by which AID can establish a letter of credit facility with a U.S. bank for the benefit of a financial institution in an AID-recipient country. Under this structure, AID enters into a loan agreement with the U.S. bank under which the U.S. bank agrees to issue or confirm letters of credit in an aggregate amount up to the outstanding principal balance of the AID loan.

AID, in this instance, is the customer or account party under the letters of credit, and the loan agreement constitutes the letter of credit application. Typically, the letter of credit application will include an undertaking by the account party to reimburse the issuer for any amounts paid out under the letters of credit. The loan agreement under the Loan Set Off structure limits the

U.S. bank's right to reimbursement to the right to set off amounts paid under the letter of credit against the U.S. bank's principal repayment obligation under the AID loan.

Structure. The letter of credit facility thus established operates in the same manner as the facilities established by the Collateral Account structure developed by PRE during FY 84. Standby letters of credit issued by the U.S. bank can guaranty a portion of local currency loans by a host country bank ("Local Lending Bank") to an identified class of subborrowers such as small agribusinesses or nontraditional exporters. Such letters of credit can also guaranty some or all of loans to the local lending bank by local investors (as through a public bond offering) for on-lending to the qualifying subborrower group.

Under the Loan Set Off arrangement, AID shares in the credit risk of the subloans with the local lending institution but has no recourse to the local lending bank for the AID portion of the credit risk in the event subloan defaults lead to letter of credit claims. The documents which the local lending bank must present to obtain payment under the letter of credit include an "Assignment and Certificate" under which the local lending bank (1) certifies the occurrence of the default and the collection efforts it has made for recovery, and (2) assigns to AID a percentage of its rights against the defaulting subborrower equal to the percentage of the subloan that was guarantied by the letter of credit. The assignment and certificate will generally also include the local lending bank's promise to continue reasonable collection efforts on the defaulted subloan and to remit to AID a portion of the recoveries that corresponds to the portion of the subloan assigned to AID. If further collection efforts yield no further recoveries, the local lending bank has no obligation to pay AID, and the defaulted subloan will result in a principal loss under the loan.

Under the latter arrangement in which the standby letters of credit guaranty borrowings by the local lending bank, AID does have full recourse to the local bank in the event of a claim against the letter of credit. Defaults under subloans will not result in claims on letters of credit

until such defaults actually cause the insolvency of the local lending bank.

A third use of the letter of credit facility is to induce a U.S. bank, usually the same bank that is the borrower under the AID loan, to confirm commercial or trade letters of credit issued by the local lending bank at the request of customers belonging to the designated class of eligible subborrowers. The beneficiaries of such trade credits will typically be U.S. exporters of products needed by the eligible subborrowers, e.g., farm equipment or production inputs for small agribusinesses. Amounts paid to the beneficiary-exporter by the U.S. bank can be set off against the AID loan principal, as with the standby letters of credit, if the local lending bank has not reimbursed the U.S. confirming bank within an agreed time period.

Comparative Advantages of the Collateral Account vs. the Loan Set Off Structure. The differences between the Collateral Account and Loan Set Off structure lie not in the nature of the letter of credit facility but in the mechanism for setting it up. The Loan Set Off structure has several important advantages over the Collateral Account structure. Most importantly, there are countries in which banks have offshore borrowing limits such as Indonesia. The Collateral Account structure requires the local lending bank to enter a loan agreement under which it is the direct borrower of U.S. dollars. PRE's experience, at least in Indonesia, was that many banks were not willing to use a substantial portion of their offshore borrowing limits in a loan facility that does not permit the banks freely to utilize the U.S. dollars borrowed. Under the Loan Set Off structure, when used to guaranty subloans directly, the local lending bank is beneficiary of a standby letter of credit facility and has no obligation to repay U.S. dollars except to the extent of remitting to AID a portion of the recoveries on defaulted subloans.

The Loan Set Off structure is also somewhat simpler from a legal point of view. There is no account owned by a host country bank which creditors of the bank might seek to attach. AID need not concern itself with taking a

security interest in a somewhat unorthodox bank account with the attendant perfection and choice of law questions.

Finally, the Loan Set Off structure permits the establishment of a letter of credit facility with perfect liquidity. The U.S, bank under the Collateral Account structure is concerned with having to pay claims at a time when the U.S. government securities have not reached maturity and must be sold at a discount if the bank wants immediate reimbursement.

The Collateral Account structure does, however, have certain advantages of its own. If properly established, there is a good chance that AID need not take the risk of a possible U.S. bank insolvency. AID's recourse is to a segregated identifiable account which might not be treated as an asset of the U.S. bank in an insolvency proceeding. This same assurance could be obtained with the Loan Set Off structure if AID insisted that the U.S. bank secure its loan obligations by a pledge of U.S. government securities in a segregated account. Such a pledge, however, is likely to reduce the interest rate the U.S. bank is willing to pay.

It is not possible at this time to reach a firm conclusion on which structure produces the highest yield for AID. To date, the Collateral Account investments have been limited almost exclusively to U.S. Treasury Bills or Notes, and the U.S. bank has generally deducted a small management fee from the earnings. The interest rates proposed by the U.S. banks in PRE's FY 1985 projects for the Loan Set Off structure were generally higher than the 180-day Treasury Bill rate and did not include any management fee.

PRE now has sample documentation for both versions and will utilize both for at least another year to see how each operates in practice. U.S. banks have shown considerable interest in each structure.

PRE has long sought to cofinance projects with private U.S. banks. Both loan structures afford PRE a potential to induce cofinancing through the U.S. bank's fractional sharing of credit risk. U.S. banks are very unlikely to share subloan credit risk, however, and the manner in

which local lending bank credit is shared requires careful thought at the project design stage.

5. Risk. As inferred from the discussion above, an assessment of risk can be approached from many sides, the ultimate test of which, for AID, is full repayment of principal and interest to the revolving fund or the U.S. Government.

Major risks may be categorized as:

- o Borrower or sub-borrower credit risk;
- o Foreign exchange risk;
- o Country credit risk;
- o Country political risk.

In addressing the various risk eventualities, the Collateral Account and Loan Set Off mechanisms afford considerable comfort in that U.S. or revolving fund monies remain invested in U.S. obligations physically located in the United States. Both mechanisms have been used thus far only for intermediate financial institution (IFI) loans where the financial viability of the institutions - U.S. or LDC - provides a strong-to-modest buffer against unforeseen difficulties.

Other IFIs, however, may be new venture capital organizations which invest their own and AID funds in start-up businesses. Here the success or failure of individual ventures, whether or not approved in advance by PRE, will directly impact revolving fund capital.

Direct loans, though representing a small proportion of revolving fund assets, run both the risk of project and sponsor viability as well as unpredictable country financial and political risk, as funds are disbursed directly to such borrowers through indigenous banks which, while private, fall under local government monetary and political regulation. Then, too, foreign exchange risk is of greater concern with direct loans, although this risk is reduced by PRE project design in selecting projects which generate foreign exchange to cover repayments in U.S. dollars.

This brings us back to the principal rationale cited by Congress in establishing the revolving fund: to ensure accountability of the program by joining responsibility and performance. PRE developed the Collateral Account and Loan Set Off mechanisms to address concerns of LDC borrowers while remaining cognizant of its own financial integrity and accountability.

Venture capital, other start-up institutions and direct obligations are pursued with the same attention to viability of the revolving fund and development objectives. Greater risks of less controllable varieties are inherent in some investments, however, and must be accepted as "givens" where very strong development and demonstrative objectives so warrant.

6. Geographical Balance. As a matter of policy, PRE from the outset has made its investments so as to avoid an overconcentration of resources in any one geographical area - consistent, of course, with available investment opportunities. This issue was addressed directly in the revolving fund legislation, which specifies that no more than 20 percent of revolving fund assets may be allocated to any single country. As of September 30, 1985, distribution of the revolving fund portfolio by region and country was as follows (in US$ millions) (See also Annex III):

Region	Regional Total	Country Total
Asia/Near East	US$18.70 (61%)	
Indonesia		US$6.10 (20%)
Morocco		US$4.50 (14%)
Philippines		US$2.35 (8%)
Thailand		US$5.75 (19%)
Latin America & Caribbean	US$ 9.35 (31%)	
Antigua		US$0.10 (0%)
Costa Rica		US$1.000 (3%)
Dominican Rep.		US$2.00 (8%)
Ecuador		US$2.80 (9%)
Regional		US$3.45 (11%)
Africa	US$1.25 (4%)	
Regional		US$ 1.25 (4%)
Worldwide	US$1.20 (4%)	US$ 1.20 (4%)
TOTAL:		US$30.50 (100%)

The legislation addresses itself to percentages of total fund size, however, envisioning a minimum $60 million capitalization plus eventual growth to a maximum $100 million.

PRE is striving to maintain geographical balance in its investments in order to complete successful demonstration projects in all regions and in each of the diverse financial, cultural, and economic contexts in which AID operates. For example, it is seeking in FY 86 to develop new projects in the Middle East and particularly in Africa - areas of the Third World that present exceptional challenge, and where projects have been slower to mature.

D. 1985 PORTFOLIO: INDIVIDUAL LOANS

1. Introduction. In FY 85, the Bureau for Private Enterprise initiated nine new loan projects which it believes best serve the self-sustaining growth of market forces in target countries. Of these loans, eight were made through intermediate financial institutions for sublending to a broad spectrum of small business and one loan was made directly to a company with exceptionally strong development impact. These loans were distributed to six individual countries, plus three projects involving multicountry loans.

Revolving fund loans obligated during FY 84 and 85 now total seventeen, their characteristics are summarized in Annexes I, II, III, and IV.

Brief descriptions of FY 85 obligations follow, by region.

2. LATIN AMERICA AND THE CARIBBEAN

ACCION MICRO-LENDING
Latin America and the Caribbean Area

Project Number	:	940-0002.44
Authorization Date	:	September 20, 1985
Loan Number	:	598-S-008 dated September 25, 1985
Type	:	Intermediate Financial Institution

This project is intended to expand the availability of credit to very small or "micro" enterprises in Latin America and the Caribbean. Capital for start-ups or expansions is normally

available to these businesses only from family savings or local money lenders charging exorbitant interest rates. To supplement these sources, some community-based lending programs have been developed successfully in recent years. Most, however, have been funded by international or multilateral organizations on concessional terms. This revolving fund project, on the other hand, consists of a $1.0 million AID loan at market rate to Accion International, a U.S.-based private voluntary organization which provides technical assistance to a number of such micro-lending programs in the region. Funds will ultimately provide assistance to vendors, artisans and small manufacturers, which businesses comprise the largest and fastest growing sectors in the Third World.

Accion will deposit the loan proceeds in a dollar account with a bank located in the United States. Using this account as collateral, the bank will write standby letters of credit to guarantee loans by local banks in local currency to micro-lending programs. Thus, a community organization wishing to expand its micro-lending portfolio can raise additional capital by borrowing at prevailing market rates from local commercial banks. The organization will charge the micro borrowers nonsubsidized interest rates.

AID is also providing a $100,000 grant to Accion to cover start-up administrative expenses. Over the long term, operating costs are expected to be covered by guaranty fees.

Development Impact

The Accion project will help generate jobs, a key focus for most AID programs in Latin America and the Caribbean. Beneficiaries are very small, generally poor, business men and women, with fixed capital below $2,000 and employing five or fewer employees. Average loans will be short term and in the $100-300 range.

MULTIFOODS REVOLVING CREDIT FACILITY
Latin America and the Caribbean

Project Number	:	940-0002.52
Authorization Date	:	September 30, 1985
Loan Number	:	598-S-009 dated September 30, 1985
Type	:	Intermediate Financial Institution

Intended to promote LDC private sector satelliite farming operations or agribusiness, this project simultaneously enhances export potential in Latin America and the Caribbean

area. Satellite farming operations are projects wherein core agribusinesses provide inputs and extension-type services to surrounding farmer-suppliers. The borrower of the AID loan is International Multifoods Corporation (Multifoods), a 93-year old diversified U.S. company which provides food, produce and food services worldwide. It has proven expertise in fresh produce production and delivery, technical assistance, management and engineering.

AID's $1.2 million loan to Multifoods in FY 85 can be rolled over annually for up to 5 years and, if the initial loan is successful, can be increased to $3 million.

The loan will go to Multifoods on a partial recourse basis and will be leveraged on a 2-to-1 basis by private investors and commercial banks. Multifoods is to advance its own funds into the LDC financing operation in an amount equal to AID's contribution.

LDC private enterprises benefiting from the project will have maximum net fixed assets of $700,000. Emphasis will be on agriculture, agribusiness or nontraditional exports with significant satellite farming components.

Development Impact

Primary beneficiaries of the project are local farmers and other small suppliers who would not otherwise have access to credit or modern technology. Development results include job creation, technology transfer and foreign exchange generation.

ANTIGUA SHRIMPERY
Antigua
Project Number : 940-0002.14
Authorization Date : September 26, 1985
Loan Number : 541-S-001A dated September 30, 1985
Type : Direct

By diversifying Antigua's economy, drawing on the island's natural resources, this project is also intended to save foreign exchange. Antigua is heavily dependent on imports, which have increased from roughly 10-to-30% in only a year. This project is expected to supplant imported frozen shrimp for the local tourist industry, thereby reducing foreign exchange outflows. The $250,000 AID loan to Antigua Shrimpery Ltd. is targeted for the construction of 25 acres of ponds and facilities needed to produce 65,000 pounds of shrimp annually

for the local market. AID's contribution, moreover, triggers the investment of a total $1.14 million in the project, a leveraging ratio of nearly one of five.

The $250,000 AID loan consists of a $150,000 loan made in FY 83 and a $100,000 loan in FY 85. Only the latter $100,000 loan is for the account of the revolving fund, and comprises part of increased project costs estimated at $600,000. The refinancing supports higher costs brought about by earlier incurred engineering costs, the addition of a hatchery facility and project delays resulting from technical problems in securing reliable sources of post-larval shrimp (seed shrimp). The balance of cost increases are being financed by private equity investment and commercial banks. AID's share of the total financing has thus been reduced from 25-22%.

Development Impact

As noted above, this project is expected to make a noticeable improvement in Antigua's foreign exchange account. The diversification of the economy will add 12 jobs directly and generate more employment indirectly in construction, marketing and food services. The introduction of aquaculture technology to the island is also expected to lead to additional future employment and strong replication potential in the Caribbean region.

3. LATIN AMERICA, THE CARIBBEAN, AND AFRICA

AGRIBUSINESS INVESTMENT CORPORATION
Latin America, the Caribbean, and Africa
Project Number : 940-0002.45
Authorization Date : August 28, 1985
Loan Number : 598-S-007 dated August 28, 1985
Type : Intermediate Financial Institution

Description

The Agribusiness Investment Corporation (AIC) project is designed to stimulate the start up and expansion of small agribusinesses. The project sponsor, Western Agri-Management Inc. (WAM), a medium-sized U.S. farming and agribusiness firm with a track record of successful new ventures in several developing countries, wants to pursue additional joint venture projects in Latin America, the Caribbean and Africa. The

project consists of a $2.5 million AID loan to Agribusiness Investment Corporation (AIC), created by WAM as a venture capital fund.

AIC and the parent, WAM, will provide direct investment, technical assistance, and management and will mobilize other U.S. and local investors. Emphasis will be on satellite farming operations. Under this concept, an agribusiness buys from surrounding farmers and in turn provides these farmers with seed, marketing knowhow, and other inputs. The approach often leads to increased farm income and production. The sponsor thus takes an active entrepreneurial role rather than a passive role played by, say, a bank which provides financing only to projects brought to it by others. For every AID dollar this project will mobilize three additional dollars in total capitalization.

Development Impact

The project will help generate jobs and foreign exchange, develop local technical and management skills and, in the satellite farming components, help local farmers produce a better product. Beneficiaries are small agriculture-related businesses and small farmers.

4. THE MIDDLE EAST

SOCIETE MAROCAINE DE DEPOT ET CREDIT
Morocco

Project Number	:	940-0002.50
Authorization Date	:	September 25, 1985
Loan Number	:	608-S-045 dated September 30, 1985
Type	:	Intermediate Financial Institution

This project is intended to stimulate trade financing for small Moroccan businesses through the creation of a private export trading company. Since the early 1980s, Morocco has faced an increasing shortage of hard currency and a negative trade balance, prompting a drive to spur exports. Societe Marocaine de Depot et Credit (SMDC) currently finances 12 percent of Moroccan foreign trade. The project consists of a $2 million AID loan to help SMDC form an export trading company to facilitate exports from the small business sector.

AID's loan will create a facility to guaranty SMDC's guaranty of loans made by other Moroccan banks to the trading company, GENEX, which is to be partly owned by SMDC. The trading firm

in turn will deliver short-term credit to exporters and buy export merchandise against letters of credit or purchase orders.

Development Impact

The project is expected to benefit about 50 small businesses and provide an estimated 3,000 local jobs by 1988. It will also spur non-traditional exports and thus help build Morocco's hard currency reserves.

5. ASIA

BANK NIAGA
Indonesia
Project Number : 940-0002.46
Authorization Date : August 29, 1985
Loan Number : 497-S-090 dated August 30, 1985
Type : Intermediate Financial Institution

Description

The Bank Niaga loan and the following three Asian loans obligated in FY 85 employ the Loan Set Off structure, with Rainier Bank of Seattle as depository and confirming bank. The project is designed to provide credit for small and medium-sized Indonesian enterprises, mainly in rural areas. Emphasis is on businesses producing for the export market, thus reinforcing the Indonesian government's effort to rebuild depleted foreign exchange reserves. AID has provided a $2 million loan guaranty to Bank Niaga, a privately owned institution which normally lends only to large firms.

AID's loan guaranties 50% of a $4 million loan pool provided by Bank Niaga in local currency for onlending to small- and medium-sized borrowers outside of Jakarta, the capital. Loans will go primarily to producers of nontraditional exports in order to spur diversification of products Indonesia can sell abroad to earn foreign exchange. AID is also providing a $50,000 grant to help Bank Niaga train branch personnel in serving these new markets.

Development Impact

The project will help create rural jobs, earn foreign exchange, and expand the local credit base by opening new credit windows for small firms that have trouble borrowing through regular commercial channels. Beneficiaries are businesses, primarily

nontraditional exporters, with $150,000 - $300,000 in monthly sales. Loans are limited to $250,000 per borrower.

OVERSEAS EXPRESS BANK
Indonesia
Project Number : 940-0002.47
Authorization Date : August 29, 1985
Loan Number : 497-S-091 dated August 30, 1985
Type : Intermediate Financial Institution

Complementary to the Bank Niaga loan, this activity is intended to provide short and medium-term credit to small enterprises, principally to less populated areas of Indonesia. The local lending institution, Overseas Express Bank (OEB), is 50% owned by the Indonesian government but is in the process of conversion to full private ownership.

AID's $2.85 million loan for OEB will guaranty 50% of OEB's $5.7 million local currency lending through its 20-branch rural network to the presently depressed small enterprise sector. Handicraft, agribusiness and light manufacturing are targets. These beneficiaries are consistent with Government of Indonesia objectives to broaden private sector involvement so as to stabilize Indonesia's oil-dependent economy. A $50,000 AID grant will help OEB train loan officers in handling small business accounts.

Development Impact

Direct beneficiaries will be 1,300 small enterprises by 1990. Employment generation is a major expected result.

FAR EAST BANK AND TRUST
Philippines
Project Number : 940-0002.49
Authorization Date : August 29, 1985
Loan Number : 492-S-077 dated August 30, 1985
Type : Intermediate Financial Institution

Mobilizing short and medium-term credit to small and medium-scale Philippine enterprises, principally exporters, is the objective of this revolving fund loan. It reinforces local government encouragement of trade financing to generate hard currency. AID's $2 million loan for Far East Bank and Trust Company (FEBTC) will guaranty 50 percent of a $4 million local currency loan pool for on-lending to small and medium-sized export businesses.

FEBTC will raise funds from its deposit base or, alternatively,

mobilize additional trade financing in hard currency in the form of confirmed letters of credit. The credit pool is designed to stimulate self-sustaining employment, sales, and incremental investment in agribusiness and light manufacturing subsectors.

Development Impact

Goals for this project include the creation of up to 7,500 job-years, targeting at least 48 small enterprises by 1990. Firms with a maximum $1 million in net fixed assets - as defined by the Philippine government - are eligible for the pool.

THAI DANU BANK
Thailand
Project Number : 940-0002.48
Authorization Date : August 29, 1985
Loan Number : 493-S-043 dated Augsut 30, 1985
Type : Intermediate Financial Institution

To stimulate growth of small-scale enterprises in Thailand's rural agro-industrial sector, this project is intended to mobilize needed short- and medium-term credit. Thailand's rapid development and resultant agricultural mechanization, coupled with a record labor supply, have caused a drop in agricultural employment, prompting the Thai government to target the creation of agribusiness jobs to absorb excess rural labor. AID's $2.35 million loan for Thai Danu Bank, a private institution, will expand the bank's operations into rural areas.

The AID loan provides a partial guaranty of $4.7 million of local currency lending by Thai Danu to the target group, businesses with less than $250,000 in net fixed assets. Subloans will be limited to $130,000 per borrower. A $50,000 AID grant will help the bank train its rural branch personnel.

Development Impact

With the objective of increasing rural employment in Thailand, the Thai Danu project goal is to benefit 140 small rural businesses by 1990.

E. FUTURE CHALLENGES

1. Project Origination. To date, the Bureau for Private Enterprise has received revolving fund investment

proposals from sources ranging from individual LDC sponsors, their U.S. or foreign representatives or contractors, indigenous and U.S. banks, U.S. corporations, and USAID missions.

Early proposals were often minimally documented and, where considerable potential for AID involvement appeared to exist, the proposals required extensive pre-feasibility research. As the Private Sector Revolving Fund has become more widely known and its purposes are better understood, the number of proposals received has grown exponentially. PRE/I has slowly built a network of contacts within the AID mission community and the private sector in the U.S. and the Third World to achieve a steady flow of potential projects. Mission understanding of PRE's focus and demonstration projects are key to eventual private sector development impact throughout the agency. Such recognition is growing both from the project origination and replication standpoints. Solidifying these gains is a major goal for PRE over the next year and beyond.

2. Replication. Section 108 requires that the projects undertaken by the revolving fund have a demonstration effect, that is, that each project be developed in a form that can be copied by other investors, lending agencies, and other regional units of AID. This was a characteristic of PRE investments even before enactment of the revolving fund legislation. For example, two of PRE/I's earlier projects involving LDC institutions, Siam Commercial Bank and Kenya Commercial Bank, had clear demonstration effects. In both projects, the use of these private institutions as vehicles of credit for indigenous small business led to larger projects, designed by the AID missions in Thailand and Kenya respectively, targeting the private sector and involving other indigenous commercial banks. More recently, the revolving fund projects have used techniques for mobilizing small business credit pools that can also be translated into larger projects funded by U.S. missions abroad.

The Antigua Shrimpery project is an example of a technology transfer activity that could be replicated in the Eastern Caribbean. The same elements - rising demand for shrimp and a falling local capability to harvest shrimp naturally - could be met by installation of the

pond/hatchery technology used in the Antigua project. Another area for replicable projects exists in the private sector supply of products hitherto monopolized by government. Thai Meat Processing, as an example, is Thailand's first modern private sector slaughterhouse (our FY 84 revolving fund project). The introduction of private enterprise into areas traditionally dominated by the public sector opens up totally new avenues for private sector delivery of products and services.

In addition, the USAID mission in the Dominican Republic has expressed interest in the financial mechanism employed by PRE's complementary export finance related loans in Morocco - one of which supports the importation of inputs used to produce products for export and the other of which helps to provide short-term credit to small- and medium-sized local exporters.

As revolving fund projects mature, PRE plans to develop models of target development objectives and loan financing mechanisms which can be adapted by USAID missions to local country priorities and private sector initiatives. In this manner, the goal of agency-wide replicability of revolving fund projects can be achieved.

3. Projected Reflows.. Reflow projections inclusive of FY 86 appropriations, based on total capital of $46.5 million, show annual reflows of interest, fees, and principal for fiscal years 1984 through 1988 as follows:

($000)

FY 84	FY 85	FY 86	FY 87	FY 88
0	$88	$725	$3,300	$6,200

If provided the full $60 million, the Bureau for Private Enterprise believes that sufficient reflows will accrue by the early 1990s to ensure a self-sustaining Private Sector Revolving Fund program.

4. Risk. Continuing challenges for the revolving fund itself, as well as for replicability purposes, are those of more versus less risk, shorter or longer maturities versus reflows sufficient to achieve self-sufficiency, and

acceptance of profit participation versus interest rate, grace period and other negotiable terms and conditions.

As mentioned earlier, (see page 10, 20, and 21) the goals of self-sufficiency for the revolving fund versus long term development objectives and replicability may often be at odds. Projects whose activities may require longer start-up periods, and therefore longer grace periods for repayment of principal may nevertheless offer significant development returns. It may be possible to compensate for the increased risk and longer payout period by negotiating a significant portion of the financial return as a profit participation, with a lower initial interest rate.

The Bureau has managed to balance these conflicting challenges thus far. As both agency replicability and revolving fund self-sufficiency become interdependent in the face of scarce foreign assistance funding, however, this challenge grows. The Bureau hopes that, as understanding of this interdependence spreads, so too will cooperation of all parties involved in the success of the private sector initiative.

I. LOAN PORTFOLIO - PRIVATE SECTOR REVOLVING FUND

Loan Name/Country/Proj.#	Funding (million) (L) AID	(G)	Total	Leveraging Ratio	Terms Rate %	Grace yrs.	Term	Gty/Coll. Acct.	Fees (7 Late Pymt/ Default	Facil.	Commit.	Util.	Cancel/ Prepymt	(L) (G) Disburse.	Reflws (8
BANCO DE DESARROLLO FINADE, S.A. (Dominican Republic 940-0002.25	2.0	.05	4.0	1 of 2 (1	7.5% (2	4 years	7	X/X	X/X	X		X	X/-	$1.0MM (L)	10,000 (F)
SUBPRODUCTOS DE CAFE (Costa Rica, other) 940-0002.27	1.0	.05	3.0	1 of 3	11.5% (3	2 years	10		X/X	X	X	X			8,800 (F)
HEALTHLINK (PATH) CREDIT (Thailand & Indonesia) 940-0002.30 (Grant) 940-0002.31 (Thailand Loan) 940-0002.32 (Indonesia Loan)	2.5	1.00	5.0	1 of 2 (1	8.0% (6	5 years	9	X/X						$272,903 (G)	
THAILAND LIVESTOCK MEAT PROCESSING (Thailand) 940-0002.24	2.5	.07	10.0	1 of 5	11.0%	2 years	10		-/X		X		X/X		
FINANCIERA DE GUAY-QUIL (Ecuador) 940-0002.36	1.4		2.8	1 of 2 (1	10.2% (3	2 years	3	X/X	X/X	X			X		7,000 (F)

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Loan Name/Country/Proj.#	Funding (million) (L)AID	(G)	Total	Leveraging Ratio	Terms Rate %	Grace yrs.	Term	Gty/Coll. Acct.	Fees (7 Late Pymt/ Default	Facil.	Commit.	Util.	Cancel/ Prepymt	(L) (G) Disburse.	Reflws (8
FINANCIERA IBERO-AMERICANA (Ecuador) 940-0002.36	1.4		2.8	(1 1 of 2	(3 10.2%	2 years	3	X/X	X/X	X		X			7,000 (F)
CARIBBEAN BASIN CORP. (CBC) (Caribbean-Wide) 940-0002.41	1.2		4.8	1 of 4	12.7%	5 years	5		-/X		X		X/-	$106,250 (L)	
Wafabank (Was COMPAGNIE MAROCAINE DE CREDIT ET DE BANQUE) (CMCB) (Morocco) 940-0002.34	2.5	.05	5.0	(1 1 of 2	(2 8.0%	1-1/2 yrs.	5	X/X	-/X	X		X		$2.0MM (L)	56,003 (I)
ACCION:Micro-Lending Gty (Latin Amer./Carib.) 940-0002.44	1.0	.10	1.0	1 of 1	(2 7.7%	3 years	5	X/X							
AGRIBUSINESS INVESTMENT CORPORATION (Latin Amer./Africa) 940-0002.45	2.5		10.0	1 of 4	12.0% *	1 years	5		X/X	X	X		X/-		

I. LOAN PORTFOLIO - PRIVATE SECTOR REVOLVING FUND

Loan Name/Country/Proj.#	Funding (million) (L)AID	(G)	Total	Leveraging Ratio	Terms Rate %	Grace yrs.	Term	Gty/Coll. Acct.	Fees (7 Late Pymt/ Default	Facil.	Commit.	Util.	Cancel/ Prepymt	(L) (G) Disburse.	Reflws (8
BANK NIAGA (Indonesia) 940-0002.46	2.0	.05	4.0	1 of 2 (1	9.5% (4	3 years	7	X/X	-/X						
OVERSEAS EXPRESS BANK (Indonesia) 940-0002.47	1.2		4.8	1 of 4	12.7%	5 years	5		-/X						
THAI DANU BANK (THAILAND) 940-0002.48	2.35		4.7	1 of 2 (1	9.5% (4	2 years	5	X/X	-/X						
FAR EAST BANK AND TRUST (Philippines) 940-0002.49	2.0		4.0	1 of 2 (1	9.5% (4	2 years	5	X/X	-/X						
SOCIETE MAROCAINE DE DEPOT ET CREDIT (Morroco) 940-0002.50	2.0		2.0	1 of 1 (1	9.7% *	3 years	3	X/X	X/X			X			

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I. LOAN PORTFOLIO - PRIVATE SECTOR REVOLVING FUND

Loan Name/Country/Proj.#	Funding (million) (L) AID	(G)	Total	Leveraging Ratio	Terms Rate %	Grace yrs.	Term	Gty/Coll. Acct.	Fees (7 Late Pymt/ Default	Facil.	Commit.	Util.	Cancel/ Prepymt	(L) (G) Disburse.	Reflws (8
MULTIFOODS (Worldwide) 940-0002.52	1.2		3.6	1 of 3	(5 10.2 *	1 years	1		-/X	X	X				
ANTIGUA SHRIMPERY (Antigua) 940-0002.14	.1		.5	1 of 5	11.0%	1 years	5								
TOTAL	30.5	1.42	72.9	1 of 3.39	9.7%*	2.44 yrs.	5.69							3,106,250 (L)	88,803
AVERAGE	1.8													272,903 (G)	

NOTE: Total Funding figures do not include Grant components.

SMDC: Plus Participation Fee, $25,000, when Genex gross sales are equal to or greater than $5 million in any Genex Fiscal Year.

Agribusiness Investment: Plus 2 percent of gross revenues.

Multifoods: Plus 2 percent of gross revenues.

NOTE: Footnotes on next page.

ANNEX I (5)

FOOTNOTES

1) In the case of intermediate financial institutions (IFIs), the leveraging ratio quoted applies only to the Agreement with the IFI, the main borrower. Accumulated on-lending, which also activates use of subborrowers' own funds, will increase the ratio by an estimated factor of 2 - 3.

2) Based on 180-day Treasury Bills of approximately 7.5% as of 09/30/85.

3) Based on 180-day Treasury Bills plus 2 percent.

4) Based on 3-year Treasury Note plus 1/10%, maximum 9.5%.

5) Based on 1-year Treasury yield + 2 percent.

6) Based on LIBOR (about 8.75% as of 09/30/85 less 0.75%).

7) Definition of fees are as follows:

   a) Late payment/default penalty - a higher rate of interest is charged to discourage late payment and default; the rate is usually about 2.4% higher than that in the loan agreement in the case of default, not so severe for late payment;

   b) Facility fee - charged the borrower for the benefits of having a line of credit made available; runs about .5% of loan amount and is payable shortly after signing of the loan;

   c) Commitment fee - charged to induce the borrower to draw down loan funds according to a prearranged schedule, or sooner; runs .5% per year on the undisbursed principal balance;

   d) Utilization fee - charged the borrower for the guaranty service provided through the use of a collateral account; ranges from about .25% to 2.0% per year;

   e) Cancellation fee - charged if the borrower exercises the right to cancel the loan;

   f) Prepayment fee - charged if the borrower exercises the option to prepay the loan (which it might do if market interest rates decline); intended to help AID recoup the cost of establishing the loan.

8) Additional disbursements totalling $1,920,000 in loan principal and $156,121 in grant funds have been made as of 12/09/85; $47,825 in additional reflows had also been received as of that date. Programmed grant commitments are higher than grant disbursements shown.

ANNEX II

REVOLVNG FUND COMPARATIVE REVIEW

Characteristics:	FY 1984	FY 1985
General Emphasis of Development Goals:	*Commercialization of Technology	*Export Trade Promotion
	*Investment Promotion	*Capital Market Development
	*Privatization	*Satellite Farming SSE/ Micro Targets
Mechanisms:	*IFI - AID Letters of Committment	*IFI - Collateral Account (Guaranty) via 3-Party Agree. or Loan Set Off (Guaranty)
	*Direct - Direct Disbursement	*Direct - Direct Disbursement
Loan Structure:		
Maturity (Wtd. Avg.)	6.8 years	4.7 years
Grace Period (Avg.)	2.87 years	2.44 years
Interested Rate (Weighted Avg.)	10.6%	9.7%
Leverage Ratio:	1 of 2.50	1 of 3.39

ANNEX III

PRE/I REVOLVING FUND
(September 30, 1985)
(US$ Millions)

PORTFOLIO BY FUNDING PER REGION/COUNTRY*

REGION/COUNTRY	COUNTRY TOT. %	REGION TOT. %
ASIA/NE		
Thailand	US$ 5.75 (19%)	US$18.70 (61%)
Indonesia	US$ 6.10 (20%)	
Philippines	US$ 2.35 (8%)	
Morocco	US$ 4.50 (14%)	
LAC/SA		US$ 9.35 (31%)
Ecuador	US$ 2.80 (9%)	
Antigua	US$ 0.10 (-%)	
Dominican Republic	US$ 2.00 (8%)	
Costa Rica	US$ 1.00 (3%)	
Regional**	US$ 3.45 (11%)	
AFRICA		US$ 1.25 (4%)
Regional**	US$ 1.25 (4%)	
WORLDWIDE***	US$ 1.20 (4%)	US$ 1.20 (4%)
TOTAL	US$30.50 (100%)	US$30.50 (100%)

*NOTE: RF legislation includes the following caveats:

1. Not more than US$3.0MM to any single project.
2. No more than 50% of total project funding of any single project is to be provided by A.I.D.
3. Not more than 20% of RF assets to any single country and, preferably, this limit will be closer to 10% when the RF is fully funded.

** Includes Agribusiness Investment Corp. (Total $2.5 million) estimated as split 50% each to Africa and LAC/SA regions.

*** Multifoods Revolving Credit Facility project, worldwide, but expected to be used initially in the LAC/SA region.

ANNEX IV.

REVOLVING FUND AVERAGE TERM OF FY 84 - 85 LOANS

FISCAL YEAR 84
8 Loans
SUM TOTAL OF LOANS: US$14,500,000

Weighted Average	6.78 years
Unweighted Average	6.50 years*

FISCAL YEAR 85
9 Loans
SUM TOTAL OF LOANS: US$16,000,000

Weighted Average	4.70 years
Unweighted Average	4.50 years

FISCAL YEAR 84 - 85 COMBINED
17 Loans
SUM TOTAL OF LOANS US$30,500,000

Weighted Average	5.69 years
Unweighted Average	5.47 years*

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* 1) The Multifoods Loan (FY 85) is included with a term of one (1) year. The facility is characterized by an annual roll-over for a period of five (5) years.

2) FINGUASA and FINIBER Loans (FY 84) are each calculated using a term of three (3) years as opposed to the ten (10) year original term for each.

These adjustments account for the change in unweighted averages previously used of 7.5 years for 1984 alone and 5.7 years for 1984 and 1985 combined.

ANNEX V.

REVOLVING FUND
REFLOWS

FY 1985

Source	Amount
Fees	US$32,800.00
Interest	US$56,002.97
Total	US$88,802.97

REVOLVING FUND REFLOW INVESTMENT ACCOUNT
September 30, 1985

Revolving Fund Account #72x4341

	Cost	Value	Indicated Annual Income	Estimated Annual Yield
Cash (1)	$ 4,598.18	$ 4,598.18	$ -	0%
Securities: US T Bills due 10/31/85	$84,204.79	$85,000.00	$6,800.00 (2)	8.00% (2)
Total	$88,802.97	$89,598.18	$6,800.00	7.59%

1. Minimum purchase of T. Bills is $5,000.
2. Approximate 1 year Treasury Bill yield @ 09/30/85.

AID IMPLEMENTATION OF KISSINGER SCHOLARSHIP

Senator KASTEN. Thank you. Do you want any additional statements from any of the gang here?

Mr. MCPHERSON. I would just rather jump into the questions.

Senator KASTEN. Let me begin, and we will, just by the nature of this, be jumping around a bit. Let me ask a question, first of all, having to do with Latin America.

As you know, the committee invested a good deal of time and effort in the Central America programs, and we were particularly supportive of the Kissinger Commission Scholarship programs there. I do have one concern, though, which I know has been related to you, and I want an opportunity to discuss it a bit more. That is that we not use this scholarship program, in effect, to have short vacations for individual people.

I am sure that short term training can be valuable, but it makes no sense, as far as I am concerned, to send people up here for what I am told is as little as a month, under certain circumstances, to give essentially give them a tour.

The idea, as we understood it, behind the Kissinger Scholarships, was to counter what the Russians and the Cubans are doing. To do that, we have to be sure that these people spend some time in the United States so that they can clearly understand both our country and our people, as well as receive the education.

First of all, could you respond as to why we have ended up with at least a couple of seemingly short vacations as opposed to longer term educational experiences. Second, can we expect your support for longer term training so that this program is not used for these short tours?

Mr. MCPHERSON. In this first year of a fairly dramatically expanding program, we had some short-term training programs which we put together on somewhat of a crash basis. However, as we have looked back on this, it is our judgment, as it is obviously yours, that by and large these training programs should be for longer periods of time, and our program for next year reflects exactly that judgment.

Would you want to make any further statement on that, Mr. Ink?

Mr. INK. We felt that there was some value from these short-term training sessions, but we agree with you and the committee staff that, in doing that, it really misses one of the basic objectives of this program.

Senator KASTEN. Did we run into one or two unusual examples, or was the whole program going to be for 3 or 4 weeks?

Mr. INK. No. The whole program was not going to be for 3 or 4 weeks, but neither was it one or two isolated examples. There were a number of them that were fairly short term. We still contemplate short term, but not the ultra short term that you are talking about, the 3 or 4 weeks.

Senator KASTEN. How did you get into this? It seems to me that it was pretty clear as to what we intended on the congressional side, particularly if you go back and read the Kissinger Commission report.

How did you interpret that to be 3 weeks?

Mr. INK. There were some as short as 3 weeks, yes, sir. I wasn't there at the time, but there was a view that even short-term exposure was useful. Some people associated with the program felt that even the relatively short term of 3 or 4 weeks was useful in terms of exposure to democratic institutions.

As a matter of fact, I have seen some training where only 3, 4, or 5 weeks, have been helpful. Nevertheless, we agree with you, Mr. Chairman, and the staff, that this is not where the emphasis should be.

Mr. MCPHERSON. The overwhelming portion of the money was for longer periods of time.

As we look back at the training program in this first year, there are a number of things that we think we can do to strengthen it. I think this was a natural beginning bursting with activities. We feel confident that this will work out well.

Senator KASTEN. I have a number of other questions, but I think, at this time, I will ask Senator Inouye if he would like to ask his questions.

Senator INOUYE. Thank you, Mr. Chairman.
Senator KASTEN. Senator Inouye.

USE OF HEALTH FUNDS FOR NUTRITION CONCERNS

Senator INOUYE. Mr. McPherson, when we were considering fiscal year 1986 appropriations, I asked my colleagues to join me in supporting a $50 million increase for health activities, and we were hoping that the increased funding would be used for new health activities. Therefore, I was very surprised and concerned when I learned of your recent proposal to fund agriculture and nutrition projects by reprogramming the money that we appropriated for health development assistance.

Before I ask the committee to object to the reprogamming, obviously, I would like your views. I would like to know how you justify your attempt to reprogram the health money to fund this project Nutrition, Surveys, and Surveillance; second, are you supporting any new health projects with the moneys that we have appropriated? If you have, I would like to know about the specific projects.

Mr. MCPHERSON. Let me respond to the first question as to where the funding should go—to health or to agriculture. One of the recurring issues over the years has been whether, in this case, giving vitamin A to kids, or giving growth charts to measure the amount of growth that children have so as to know how to better deal with their health problems, those are agricultural issues, or are they health issues? We have funded, as I understand it, those kinds of matters under both accounts.

I don't think that this is a marked departure, or a distinctive departure from what we have done in the past. I think you can see how that falls into both categories.

DEMARCATION BETWEEN HEALTH AND AGRICULTURE ACCOUNTS FOR NUTRITION

Senator INOUYE. There is no clear demarcation between health and agriculture? Under your rationale, I suppose, you can use health money for just about any project you have. You can use it for education. You can use it for environmental protection.

Mr. MCPHERSON. I am not explaining myself very well because the issue is really a fairly narrow one, and that is, would moneys that might be considered "nutrition" moneys be entirely funded in agriculture, or should some of those come out of health, or all out of health as well?

The area of confusion isn't education, or a whole range of things, it is nutrition. It seems to me that it is not unreasonable to argue that providing a vitamin A pill to a child is a health item, instead of an agriculture/nutritional item.

I know that this has been raised with my staff as well, and it was brought to my attention a couple of days ago as a matter of concern by you. We will be happy to work it through.

Senator INOUYE. This is a project that was cut out originally, wasn't it?

Mr. MCPHERSON. Pardon.

Senator INOUYE. It was cut out originally.

Mr. MCPHERSON. I don't think so.

Senator INOUYE. Your nutrition account was reduced, wasn't it?

Mr. MCPHERSON. The agriculture account was decreased, and the health account was increased.

Senator INOUYE. So the decrease from agriculture was added on to health.

Mr. MCPHERSON. As I said, and I want to be sure I am laying out all the facts—it is a legitimate question to argue—which account nutrition items, such as vitamin A, should go into, whether they should go under agriculture or whether they should go under health.

There is no question that we had a huge increase in health and a $100 million cut in our proposed figure in agriculture. So as we sort these things through, we have a certain bias to where we might put it. I don't think that it is an unfair allocation or argument that we make that giving a vitamin A pill to a child is a health item.

Senator INOUYE. My committee assistant just pointed out that your vitamin A deficiency program in the committee report very clearly states that we wish to have you include this deficiency program not in the health area, but in nutrition.

Mr. BRADY. Yes; this is correct, Senator, for an expanded field program for vitamin A. We have stuck by your guidance right to the letter in terms of following up on a field pilot program for vitamin A, not only to reduce blindness, but greatly reduce morbidity of children, and this is the program that this was intended to support.

However, the Agency has been working on vitamin A in the research area for some time before this. As a matter of fact, it was a regular research project, the results of which called our attention to this potential.

Mr. MCPHERSON. We don't want to try to be evasive on this issue. In fact, I would like to try to lay out all of the facts and concerns that we have on it. We will be happy to work with you on how we should best allocate it.

Obviously, we have an extremely tight agriculture account, and that concerns us. On the other hand, it seems to me like a legitimate allocation, however, we always look to your guidance on these difficult areas.

AID'S FISCAL YEAR 1986 IMMUNIZATION PROGRAM

Senator INOUYE. On this fiscal year 1986 bill, where we increased the health account, we set forth in the committee report, in addition, that a significant portion of the increase in health development assistance be allocated to AID's immunology project.

In the fiscal year 1985, you had spent about $12 million, and now you propose to provide, for fiscal year 1986, $7.5 million.

Mr. MCPHERSON. As you perhaps know, I have been a major advocate of the malaria vaccine program. When I arrived at AID, our malaria funding was only a couple of million dollars a year, and it had

been at that level for a long time. I said this is something where, with Dr. Brady's recommendation, we can really take off.

We have, in the 5 years that I have been here, put $30 million in malaria research, and we are now at the point where we are field testing one vaccine for the biggest killer of malaria. It had been our judgment that we had put enough money into it in previous years so that this year, we were likely to be able, despite not putting as much as last year, to continue on at the same research levels that we were doing before, because we had funded so much of it in the past.

However, upon inquiring in the last couple of days, it appears to us that that judgment does seem to be in question—whether or not we can keep up this level. Yesterday, in hopes of being sure that we did it right, I asked if we could find a couple of million extra dollars for malaria to reallocate from some other place which would bring immunology funding up to $9 million, or $9.5 million, as opposed to $7.5 million, roughly.

Let's look at how we do that. I appreciate the interest that you have in what I think is likely to be, when we look back on the 1980's, one of the biggest achievements that AID has had during this period. There are 200 million cases of malaria a year, and we have been a significant contributor to developing this breakthrough in technology. I am intent that we deliver on this malaria vaccine.

Senator INOUYE. Do you think that you are going to do it by cutting last year's budget?

Mr. MCPHERSON. You can only stuff so much money into the bank, and more money doesn't necessarily always do it. I think that we ought to look at it. Let us look at it.

Senator INOUYE. I hope you will because you have convinced me that we were on the threshold of eradicating malaria.

Mr. MCPHERSON. I am not going to cut out something where we are about to make a big breakthrough.

Senator INOUYE. This is going to be a McPherson malaria movement. [Laughter.]

Senator KASTEN. A McPherson antimalaria movement.

Mr. MCPHERSON. Let us make sure that this works out. The key thing, I think, is to keep the research with the momentum that we have. I don't want to do anything else but that. I have a tremendous institutional stake in that.

PERUVIAN DEATHS RESULTING FROM ORT PACKETS

Senator INOUYE. One of the miracle projects that we have had is the oral rehydration therapy [ORT] packets that we are distributing all over the world. Last week, your Agency notified the committee that four Peruvian children apparently died from packets that were improperly mixed. What is the story on this? We don't want to send out bad signals.

Mr. MCPHERSON. We worked extremely carefully on that. It is uncertain what the children died from. There have been a couple of

autopsies so far that suggest that there may have been other reasons from which they could have died.

In any case, four children did die in the hospital. We have brought back samples of the ORT solution, which we think they may have taken, and that solution certainly was at dangerous levels of potassium.

We have had, working through the Ministry of Health in Lima, a recall of all of the ORT packets in the country that were manufactured by this particular company, and those are now pulled back. We have packets in place to replace those recalled packets in Lima. Things seem to have quieted down a lot.

It is enormously important that this technology that saves at least a half a million children a year continue to be as well thought of as it is. We, at AID, have been a significant factor in the promotion of ORT around the world, particularly during the last 3 or 4 years. We have had two worldwide conferences with people from 100 countries, and we want to keep that effort going.

I think this Lima problem is a terrible tragedy for the families involved, but it is not going to be a deterrent in our efforts.

Senator INOUYE. Is this the first time that this has happened?

Mr. MCPHERSON. Yes.

Senator KASTEN. As part of this, you said that the salts supplied by this particular contractor in Peru had been recalled. Are there other salts that have been provided by this particular contractor that were sent to places other than Peru?

Mr. MCPHERSON. This was a U.S. contractor. There had been no other places that he supplied with ORT salts.

Senator KASTEN. So you took everything off the market?

Mr. MCPHERSON. Yes.

Senator KASTEN. Excuse me, I just wanted to get that followup question.

Senator INOUYE. I have many more questions, but I think I will submit them for the record.

Mr. MCPHERSON. We handled this well, actually, and it worked well. The Peruvian Government took the lead in pulling the product back from the market. The Minister of Health, being a former World Health Organization official, and AID worked extremely effectively in my judgment.

Senator KASTEN. Senator DeConcini.

AID'S HANDLING OF EXPROPRIATED U.S. FUNDS IN THE PHILIPPINES AND HAITI

Senator DECONCINI. Mr. Chairman, thank you.

Mr. McPherson, I want to thank you and your staff for the cooperation that you have shown our office. Even if there are areas of disagreement, your willingness to work with us on things, the same cooperation you just indicated to Senator Inouye.

My first question appropriately relates to today's filing deadline for taxpayers. As a citizen of the United States who generously contribute to programs providing assistance abroad and diligent support of many

AID assistance programs by paying taxes, what troubles me are recent disclosures that point out the vast amount of capital accumulated by Mr. and Mrs. Marcos, and Mr. Duvalier.

It seems strange to me that these men and women could gather such large sums of money. Mr. Marcos received a salary of supposedly $5,700.

What I am concerned about, Mr. McPherson, is if Mr. Marcos was able to amass a dynasty in wealth on misappropriated U.S. assistance, and maybe Mr. Duvalier is the same, what is happening to AID which is permitting these kinds of disbursements.

I don't want to accuse anyone here of something that may be refuted, and that is why I raised the question. The information that I have seen indicates that it is very likely that Mr. Marcos confiscated or at least misused some of our aid.

I wonder if you can tell us and give us some assurance so that we won't see other Third World countries, in Africa or some place else, purchasing prime real estate in Manhattan.

My specific question is: Is AID doing anything to recover these exported revenues of Marcos, and are you involved in investigating these moneys, and losses of them, and is there similar investigating taking place with AID in Nigeria, Kenya, or Sudan, or any of those places, and what are your findings in such investigations?

Mr. MCPHERSON. Let me make a comment, and then I will ask Mr. Greenleaf to comment further.

We live and work in an environment where there are often great corruption problems. It is for those reasons that over the years, we have put in place a very stringent auditing system that I feel tracks things really quite well. The fact that we track AID money very carefully, of course, doesn't prevent corruption around us, nevertheless, it does give certain assurance to taxpayers. This is an issue which I don't think will ever go away. I think that we are going to be looking at this one for as long as I am here, and those that follow will certainly struggle with it.

But the Philippines issue has really taken the front and center in recent times, and I would like to ask Mr. Greenleaf to answer this question.

Mr. GREENLEAF. As far as we know from the information that we have been able to find through our auditors, as well as the GAO auditors and our Philippine counterparts, the money from AID has not been misused. As a matter of fact, we have a letter here, which we will be glad to show to the committee, and submit to the committee, from the new Minister of Finance, who took office just recently, indicating, as a result of numerous inquiries and newspaper stories that have come out recently, that their review of the AID program, ESF money in particular, which most of the discussion is about, is somehow all accounted for.

Senator DECONCINI. How far back does that cover?

Mr. GREENLEAF. The particular inquiries that have come out in the press, Senator, have been 1984 and 1985 funds, although our records

show, as do prior audits by both our own Inspector General's Office, as well as by the GAO, prior to that time, that, indeed, AID funds were all accounted for.

Senator DECONCINI. The ESF funds have not gone into the Central Bank of the Philippines.

Mr. GREENLEAF. Yes.

Senator DECONCINI. But there are no indications that any of those funds were drawn out for political activities of Mr. Marcos.

Mr. GREENLEAF. The procedure was set up, such that our funds went into the Central Bank of the Philippines in dollars, and subsequently an account was set up for the equivalent amount of Philippine pesos, because the funds were being spent locally for schools, roads, and other projects which had been mutually agreed upon.

The point of the Minister of Finance's letter is that the equivalent pesos were spent for 900 and some odd schools, a certain number of roads, and other things.

Senator DECONCINI. I would like to see the letter.

Mr. MCPHERSON. We would like to submit that letter for the record. I know this committee has been very interested in this issue, not just within the last few weeks, but you and others have been interested in it for a period of years. Senator Kasten, I know that you certainly have.

I believe that your fairly intense interest in this matter was part of helping to see that the restrictions around the expenditures are such that——

Senator KASTEN. I am advised by staff that that is an understatement. [Laughter.]

Without question, I think the fact that all of us worked together to try to get those inspector general activities and other safeguards implemented. It has turned out that we did the right thing, and this is the result of it. We can all take a bit of credit there.

AID POLICY FOR TRACKING FUNDS ELSEWHERE IN THE WORLD

Senator DECONCINI. I am reassured by what you tell me is in that letter. Let me ask you, what is the policy of AID, or what are you doing as it relates to, let's say, Liberia, Kenya, and was there that protection in the small aid effort that we had going in Haiti?

Mr. MCPHERSON. In Haiti, about half, which was a steadily growing portion of our program, was outside the government, with PVO's. In fact, we have done some marvelous things outside the government. We are planting 7 million trees in Haiti this year on individual farmers' land.

Senator DECONCINI. What about those that were within the government?

Mr. MCPHERSON. Within the government, we think that we are able to track that fairly well. We don't have an audit letter like we have from the Philippines, but I am sure we will. This is an issue which we struggle with in every country.

Senator DECONCINI. Is this the same in Kenya, or are you consistently auditing?

Mr. MCPHERSON. We are constantly pushing, and we have used our inspector general extensively.

Senator DECONCINI. Is the inspector general in Haiti now?

Mr. MCPHERSON. That is right.

Mr. INK. We did ask the inspector general to look at Haiti for the very reasons that you are addressing. An individual is there now, but that audit has not progressed as far as the one in the Philippines. As with the Philippines, we have no evidence of problems relating to AID funds, but until the investigation is completed, we can't provide assurance of no problems.

Senator DECONCINI. What about the Sudan, or Kenya? Are there ongoing inspector general audits there?

Mr. MCPHERSON. We have three sources of audit support: the IG, the GAO, and a few years ago we initiated a program where the mission had the authority to hire local auditors to help out. That ended up significantly helping management because it permitted a local manager to go over and get help, and get it faster than he could from the outside.

I think that we are in decent shape on tracking our money. It is easier to track money than to say the funds have produced what you wanted them to produce. That is a whole different set of issues, as you can imagine. So we do fairly well in tracking our own money and our troops. There are problems occasionally, but they are minor in considering the whole range of things.

AMERICAN SCHOOLS AND HOSPITALS ABROAD

Senator DECONCINI. I think that is so crucial to your operation. I know that you do track it, but does that tracking go further as to the suppliers of those goods, and foods—do they actually get there?

I am somewhat pleased with your response here, and I will submit some other detailed questions. I would like to read the letter. I will ask one more question, and then I will submit the balance of them, Mr. Chairman.

On a more positive and optimistic note, I would just like to commend your work with David Santos of the Office of American Schools and Hospitals Abroad. Your cooperation with the support of Esperanza, an American organization comprised of voluntary doctors performing surgery along the Amazon in Brazil highlights the ability of the United States to achieve important foreign policy endeavors. It is my kind of philosophy of what you have put together there, and I only want to ask: What are you doing to encourage programs such as Esperanza to expand in other areas of the world?

Mr. MCPHERSON. We think that that general thrust makes sense. David Santos, as you know, is in charge of the ASHA program, and David is here. He does a particularly good job running that program that has done so well.

Senator DECONCINI. Indeed, he does.

Mr. MCPHERSON. David, do you want to say a few words?

Mr. SANTOS. There are about a dozen similar activities in certain African countries where we are involved in the funding.

Senator DECONCINI. Similar to this, and are we funding those?

Mr. SANTOS. Yes, we are.

Senator DECONCINI. Could you give me a list of them, and a little description of what they actually are?

Mr. SANTOS. Yes.

[The information follows:]

MEDICAL CENTERS IN AFRICA AND LATIN AMERICA ASSISTED BY ASHA IN THE 1980'S PROVIDING SERVICES SIMILAR TO ESPERANCA

Hospital de la Familia, Nuevo Progresso, Guatemala, provides medical and public health services in the rural agricultural highlands of northwest Guatemala. Emphasis is on improving nutrition, preventing disease, plastic and other specialized surgery, gynecology and pediatrics, and training health workers.

Hospital St. Croix, Leogane, Haiti, is a key institution delivering primary and secondary medical health services in the province of Leogane, south of Haiti's capital city. A major part of this effort is maternal and child health, nutrition and the training of nurses and paramedics to staff rural clinics.

Good Shepherd Hospital, Tshikaji, Zaire, provides health care in Kananga Province of south central Zaire with surgical, pediatric, general medical, ophthalmologic, and physical therapy services. It trains nurses, interns, paramedics, and medical technicians who staff over 200 rural health and nutrition clinics.

Kanye Hospital, Kanye Botswana, is the largest nongovernment hospital in the country providing primary and secondary health services and extension programs at rural clinics. The hospital operates a nursing school and provides health education to prevent disease and improve hygiene and nutrition.

Central Hospital at E'nongal, Cameroon, is the operating base for primary health care and education programs serving a large area in southern Cameroon. The hospital operates rural dispensaries and training programs for nurses and nurses aides.

Malamuo Hospital, Makwasa, Malawi, and its rural clinics provide primary and secondary medicine in a 600-square-mile area of southeast Malawi. Training is provided for nurses, midwives, medical assistants, and laboratory technicians with emphasis on disease prevention and control.

Mwami Hospital, Chipata, Zambia, and its laboratory facilities concentrate on combating subtropical diseases in eastern Zambia. In addition to general curative medicine and surgical services, the hospital operates a nursing school and vaccination and maternal/child clinics.

Heri Mission Hospital, Kigoma, Tanzania, provides general medicine, surgical, obstetrical, and pediatric services for the rural poor. Emphasis is on preventative medicine, nurses training, and operation of satellite dispensaries and maternal/child health clinics.

Mugonero Hospital, Kibuye, Rwanda, serves the western and poorest area of Rwanda and extends its service through the operation of five rural clinics. The hospitals include a nursing school and conducts health education programs in maternal and child health and nutrition.

CORRESPONDENCE

Senator DECONCINI. Thank you very much. I really believe those programs are most receptive, having visited one. It really is a goodwill effort on behalf of the United States, as well as a very needed medical operation. I commend you to that type of inclination or leaning.

Mr. Chairman, I have other questions which I will submit the balance for the record. Thank you for your courtesy.

Senator KASTEN. Thank you very much.

Senator INOUYE. Mr. Chairman, at this juncture, may I request that the letter of the Minister of Finance be made part of the record?

Senator KASTEN. Without objection it is so ordered.

[The document referred to follows:]

REPUBLIKA NG PILIPINAS
MINISTRI NG PANANALAPI
MAYNILA

2 April 1986

Mr. Frederick W. Schieck
Director
U.S. Agency for International
Development
1680 Roxas Boulevard
M a n i l a

Dear Mr. Schieck:

Questions have been raised in the newspapers with respect to the utilization by the former Government of the Philippines of Economic Support Fund (ESF) program assistance provided by the United States in December, 1984 ($47.5 million) and December, 1985 ($45.0 million). The particular issue is whether the Government of the Philippines can account for the peso equivalent of the total amount of $92.5 million provided, i.e., Pesos 1.79 billion. I would like to state the official position of my Government on the matter of accounting for these ESF-generated peso resources.

Our position is simply that the pesos can be accounted for. The Government of the Philippines has no problems with accounting for this assistance.

December 1984 ESF Disbursement

Let me recap briefly what has happened and what we plan to do. In December, 1984, the United States Government disbursed to the Treasury of the Government of the Philippines $47.5 million. The purpose of this assistance, which was provided in connection with the 1983 Memorandum of Agreement on the Philippines-U.S. Military Bases Agreement, was to support the balance of payments position of the Government. The $47.5 million thus became part of the foreign exchange reserves of the Government and as such were available, along with other dollar holdings of the Government, for foreign exchange purposes.

Concurrent with this disbursement of dollars, the former Government provided an equivalent amount in Philippine pesos ("the counterpart") --Pesos 940.571 million, the use of which was subject to joint U.S.-Philippine programming. These pesos were initially placed in a special Philippine Treasury account, and then transferred to the General Fund of the Government.

By agreement between our governments, these pesos were to be spent on local costs associated with selected

development projects of the World Bank, the Asian Development Bank and USAID during 1985. However, we have not yet spent all of the ESF-generated pesos because of delays in the releases of Cash Disbursement Ceiling (CDC) authorizations for government counterpart fund support of ESF-financed projects by the Office of Budget and Management (OBM) as a result of continuing revenue problems brought about by the prolonged economic contraction in the Philippines. Another reason for the slow utilization of ESF pesos is the slow implementation by concerned government agencies of ESF-funded projects due to unavoidable technical and administrative problems. Nevertheless, with USAID's permission, we will endeavor to use the unspent balance in 1986.

December 1985 ESF Disbursement

In December, 1985, the U.S. Government disbursed to the Treasury of the Government of the Philippines $45.0 million, again for balance of payments support. Again the dollars became part of the Government's foreign exchange resources. A special Treasury peso equivalent account was established for Pesos 853.785 million. These pesos are still in that special account. Because circumstances have changed, we will need to reagree on the use of these pesos before they can be released.

I have asked my staff to work with your staff to make whatever arrangements are necessary to allow us to spend the 1985 peso balance in 1986 and to free up the 1986 peso account for immediate use. Your attention to these matters would be appreciated.

Let me close with my personal assurance that the Government of the Philippines will continue to fully and faithfully account for the ESF peso proceeds.

Sincerely yours,

JAIME V. ONGPIN
Minister of Finance

Senator KASTEN. Do you have any other questions that you would like to ask at this time, or should I go on?

Senator INOUYE. I would like to submit the rest of my questions for the record, but I would like to make one observation, since we are talking about corruption.

About 14 years ago, because of allegations that had been made in the Philippines, working together with your predecessor agency, we came up with a rather unique project. During those days, as part of the food program, we gave the raw material all over the world, grain, and then we left it up to the Philippines or other countries to convert that to whatever they wanted.

The allegations we received were that about 30 percent of the grain was somehow diverted to private garages, private warehouses, and it wasn't being consumed by the intended beneficiaries. So AID came up with a project called Nutrabuns, where we set up bakeries and we baked these buns, which had the equivalent of one glass of milk, and a full day's supply of all the nutrients necessary. Those loaves would last 3 days, and after that they would get green and moldy, so no one could store it. It was cost effective, and the only country that accepted that was the Philippines, all the other countries got rather huffy about this, and said: Are you suggesting that we are corrupt?

I like history to show that the one country that accepted it was the Philippines.

Do you still have Nutrabuns?

Ms. BLOCH. Yes; we make them smaller now, so they don't get green.

Mr. MCPHERSON. Let me comment about the health program. Both of you have been very interested in this health effort, so let me give you just a 60-second report on what we have done. We have worked out a program where we have two programs, ORT and Child Immunization. In connection with the World Health Organization and UNICEF, we have reached general agreement on how to approach this.

At the ORT conference, 2 months ago, we got all those people together, and I think that it really contributed to an international approach on how to do this. Not only have we used the Child Survival money to make significant contributions to ORT and immunization, and Child Survival in general, but in looking back at the whole health budget, I say, "How does this budget contribute to those basic Child Survival efforts?"

There are some exceptions. For example, I feel strongly that we need to continue funding biomedical research with respect to malaria, and a number of health research projects we have going, and I view that as part of the Child Survival effort. But I think in 5 years or so, as we look back, we are going to feel we have made some really big contributions.

With respect to ORT alone, in 1983, we began a brief program in Egypt. Now we figure that in 1985 the program saved 90,000 lives in Egypt. That has a real impact on that country, 90,000 lives. Further-

more, surveys show that 80 percent of the mothers know what ORT is in Egypt now.

We are doing some very exciting things here, Senator Kasten and Senator Inouye. I know you have been very interested in really moving with this kind of effort. I think you would be pleased with our efforts.

Senator INOUYE. I was very pleased to meet with some ladies from an organization called Results. Have you met with them?

Mr. MCPHERSON. I know the organization, and they are working hard on immunization.

Senator INOUYE. I think that it might be well to listen to them. They are a huge constituency, all out to support you.

Mr. MCPHERSON. To build a constituency for AID, you must begin to talk in quantitative terms. You begin to talk about the 90,000 kids saved through the ORT in Egypt, and we can talk about a certain increase in grain production in Sudan because of the new type of sorghum we have, where people would otherwise eat much less. Those kinds of quantitative figures communicate something to people. It is not just another study or theory. It is life saved, and it is a stomach full.

Senator INOUYE. Thank you very much.

Senator KASTEN. Thank you, Senator Inouye.

CROP SUBSTITUTION PROGRAMS

Senator KASTEN. The Chapare Regional Development Project is the cornerstone of the AID program to reduce the dependency on coca production in Bolivia. All of us are aware of the fact that it is an uphill battle, and it has been frustrating.

The justification material says that we are seeking to provide viable options to coca growing in the context of controlling coca eradication activities. The project is providing direct assistance to cooperating farmers.

That is what it says, but realistically, I think many people have come to the opinion that there are no economically viable options for a number of these people. In a sense, we have to rely on the cooperating farmers more than we can rely on the economic alternatives, it seems to me.

Specifically, how can we induce these farmers to grow anything else when they make four times the amount of money growing coca than other crops, and I am told with a lot less effort?

What percentage of farmers in this area have we been able to convince to cooperate with our Chapare Regional Development Project?

Mr. INK. The economic incentives of crop substitution do not by themselves produce eradication. New crops do form a future economic base for farmers who eradicate their coca crops. We have a significant program under way in that area, and we have quite a large number, as I recall, between 40 and 50 experimental or demonstration farms that are participating. If we demonstrate what can be grown usefully after the eradication takes place, then eradication is easier. This is important.

I think of alternative crops as effective only in relation to other elements of the broad program which involve more than the coca eradication. It also involves interdiction, and another effort that AID has under way, the public awareness program.

It seems to me that a successful program requires an awareness on the part of the communities, and on the part of the families, of the hazards of narcotics, whether it be coca or whatever. These hazards reach the basic fabric of a community, the family, and family life.

Eradication and interdiction have a much stronger base and are more effective if we are able to help with new types of crops that can provide a viable living for farmers who have eradicated.

It seems to me, eradication is not the beginning of the process. It has to be thought of in conjunction with the other elements, some of which precede effective eradication.

Senator KASTEN. So right now, the percentage of farmers participating is relatively low, and it is just a lot of hope.

Mr. INK. No; it is more than hope, because some of the farmers are participating, but it is at a very early stage.

Also, Mr. Chairman, a part of this program involves research and development, which Dr. Brady can speak to better than I can. Research and development is needed to help develop the kinds of strains, the genetic characteristics of crops that can be adapted to those soils and those elevations. It will take some time for that to come to fruition.

Let me also say, Mr. Chairman, that in the view of most of us who have any association with the new Bolivian government, President Paz, who has been in office less than a year, we are struck by the courage with which he and his administration are dealing with economic issues, and now the beginnings of a determined effort to deal with narcotics.

Senator KASTEN. This is just a difficult subject, I know. All of us understand the difficulties of it. I just wanted you to know that the subcommittee feels very strongly about these overall efforts, and we look forward to working with you.

Mr. INK. We very much appreciate the support of the committee, because this is a much more serious problem than most of the American people realize. The consequences of not being able to make progress potentially can have a grave impact on this hemisphere.

KENNEDY-KASTEN BILL

Senator KASTEN. Let me switch subjects. I have been involved with this issue, and one of the lessons that is very evident is that unless there is enforcement coupled with whatever we are able to do on the development side, it simply won't work, and it has certainly proven to be the case in countries that I am familiar with. We simply have to work together with other agencies of the U.S. Government, as well as with our counterparts and groups in the countries involved.

Let me shift if I can. You mentioned in your opening statement the fact that Senator Kennedy and I have introduced legislation which would establish the African Famine Recovery and Development Fund,

which is intended, at least in our opinion, to more adequately affect the long term development needs of the Sub-Saharan Africa.

I would like to know if you could more specifically comment on that legislation, and I wonder if Mark would like to comment also.

Mr. MCPHERSON. We have not, in the executive branch, fully reviewed the legislation as yet, so I won't be able to give you the administration's conclusions. But there are several aspects of it which are appealing to us. It would appear to create an Africa account similar to the Sahel account, giving us broad flexibility, which we could use, that would allow us to move along more rapidly.

We think that the general thrust of the legislation, the problems that it points out, that it tries to address, are problems that we have been thinking about.

Mr. EDELMAN. In addition, Mr. Chairman, the language in the legislation supporting the need for policy dialogue, incentives, and private sector development is what this administration has been talking about since we came into office. The fact that you and Senator Kennedy have demonstrated your support for these policies in your bill is very encouraging.

It is not only encouraging, but exciting as well, since the Africans themselves are now acknowledging that the responsibility for developing Africa is their own.

About 2 weeks ago, the Foreign Minister of Senegal said exactly that, representing a major change on their part. They are also recognizing the need for policy reform, so we have the flexibility for the first time to use AID funds for nonproject assistance, which is what Africa needs.

AID'S POSITION WITH RESPECT TO GIVING ASSISTANCE TO ETHIOPIA

Senator KASTEN. I just want you to know that we introduced that legislation with the intention of enacting it. Sometimes you put in legislation for other reasons. We thought through this, and we worked through this, and it is our intention, somehow, to enact at least a large part of it. It could be part of one of the appropriations bills, or supplementals. It is something that we intend to pursue. We look forward to working on it with you.

There have been a lot of articles about Catholic Relief, AID, and Ethiopia. I think we have every reason to be proud of what we have done in Africa. It has been an atmosphere that in general has been good. I am sad to see some of that cooperation change, at least on behalf of some people.

The recent public disagreement between Catholic Relief Services and AID concerns all of us. Catholic Relief accuses the United States of limiting food aid because of its ideological distaste for Ethiopia's Marxist government. The United States accuses Catholic Relief of being greedy, as I understand. Other relief agencies accuse CRS of trying to blackmail the U.S. Government. CRS defends itself by saying that it must fill in the gap left by the International Committee for the Red Cross, which is spending 50 percent of its relief in Eritrea. Save the Children is halting its feeding program in the northern region.

Is it possible for you to tell us what is going on? What is all of this about? Is it something that we should be concerned about, or is it going to work itself out?

We have essentially had, as I understand it, a nonpolitical approach to helping the starving in Africa, and I think that this has been especially true in Ethiopia. We don't want to be any part of this forced resettlement business, and we ought not to be. At the same time, if there are wrongs, it seems to me, in Ethiopia's Marxist government, it is our responsibility, as well as Catholic Relief's responsibility, and everybody else's responsibility, to point these out, and to bring them to the attention of the world.

Are we giving enough food aid to Ethiopia, and what is at the bottom of this whole dispute with Catholic Relief?

Mr. MCPHERSON. Unfortunately, the events have overtaken the media. To my knowledge, all parties have been satisfied. The issues involved around how much food we are going to provide this year to Ethiopia, and, second, how much of the in-country transportation we are going to pay for, as opposed to the PVO's.

Our position was that the drought was not as bad this year as last year, and we would begin to phase down. It was a phase down, but the figures we were using were figures basically supported by the international community, and those figures were finally agreed to.

The transportation question was whether or not the PVO's, which had money from their fundraising, would put money into in-country transportation costs. It was our position that since the PVO's raised the money to deliver food to people, and since we were providing the food, the PVO's should put up the money for transporting the food. Our position prevailed, and at this juncture, these issues have been practically settled.

Senator KASTEN. Julia, do you want to make some additional comments?

Ms. BLOCH. No.

STATUS OF ETHIOPIAN RESETTLEMENT PROGRAM

Senator KASTEN. As you all know, Senator Hatfield, Senator Inouye, I, and others, introduced a Resolution condemning the Ethiopian Government's resettlement program because of the very disastrous effect it has had on the people of Ethiopia.

We have been very forthright in our criticism of that policy of the Ethiopian Government, as well. Where do we stand now?

Mr. MCPHERSON. To date, the Ethiopians have moved over 500,000 people. The indications we now have are that they are not initiating at this moment any further moves. We don't know how long this will last. There was some representation by some people that they might not move any more until the drought is over, but we just don't know about that.

The resettlement areas themselves, of course, have improved because they have had the time to put resources into them. Nevertheless, it is clear that thousands of people died in this initial move.

ETHIOPIAN VILLAGIZATION PROGRAM

Senator KASTEN. Let me just stop you. The other part of this is the so-called villagization program. Rather than me asking two different questions, if you are going to talk about the resettlement question, and what is happening, let me touch on that one, too.

This villagization program, according to reports, also is having some disastrous effects. Can you touch on that along with the resettlement, and maybe we can get one answer.

Mr. MCPHERSON. We think that we have made some progress in getting the Ethiopians to, at least, temporarily draw back from moving further people to the resettlement area.

The villagization program seems to be progressing rapidly. Here the Ethiopian Government talks in terms of moving millions and millions of people. The resettlement involves moving people from the north to the south, hundreds of miles usually. The villagization program involves a several square-mile area where people are moved off their farms, where they have historically lived on their land, and then moved into villages, sometimes several times—usually several miles away. Then they have to walk out to their fields to work in them.

In some areas, they are beginning to talk about collectivizing the farms so that the village and the government own all the land. They are forcing people to destroy the houses back on the farms, so that they can't go back to them. The whole thing, in our judgment, looks as if it will clearly have an adverse impact.

Senator KASTEN. At the meeting of foreign ministers that you were just talking about, it was just the opposite.

Mr. MCPHERSON. We think that villagization is going to have a very negative impact on the food production in a country where people are starving. In fact, it is going to be a serious violation of the rights of these people.

We are talking more and more about it, and we appreciate your interest, because I think that when the United States gets involved in these issues, we have an impact. I think that we had an impact on the resettlement. We are going to stand up and talk about it whenever we hear about this.

Senator KASTEN. We are concerned about this in a number of different ways. First of all, the overall program that we are talking about, the villagization program, and the resettlement program, are of great concern. I am pleased with your answer to my first question saying that we have some of the problems worked out with CRS.

From our point of view, the Catholic Relief Service has been one of the most effective in terms of working with us, and I am pleased that any rough edges that we may have had according to newspaper articles are settled. We support the work they are doing, and look forward to working with you and them toward goals that we all share.

Mr. EDELMAN. Mr. Chairman, I would like to make a comment, if I may.

Senator KASTEN. Yes, Mark.

Mr. EDELMAN. Villagization is going to be a disaster. It was a disaster in Tanzania, and it will be a disaster every place it is tried. When resettlement begins again, it too will be a disaster. There are going to be huge deficits in food production in Ethiopia as a result. When that happens, there will be many attempts to urge the U.S. Government to provide more food.

However, these are structural food failures which, at least right now, we don't intend to make up for. You will find people coming to you saying that the U.S. Government has to help Ethiopia. I agree that the United States should help the Ethiopians in times of natural disasters, but not manmade disasters. It is the policies of the Ethiopian Government that is causing the food shortage—not only resettlement, but also the failure to give any kind of incentives in agricultural pricing. Farmers don't produce on collective farms; obviously, there are no incentives for them to do so. Ethiopia is heading further down that same slope that has led other countries into decline.

I think you will be hearing more and more about food needs in Ethiopia, and I encourage you to separate government-induced food shortages from natural food shortages. One is what we are responding to, and the other is one that I hope we don't respond to.

U.N. POSITION ON ETHIOPIAN RESETTLEMENT/VILLAGIZATION

Senator KASTEN. We are not going to have ideological relief, but at the same time, we are going to use our efforts to try to go in the direction that we know is right. One of the things that I am told, at least which is quoted in the Ethiopian press, a top U.N. officer, Maurice Strong, in the U.N. Office of Africa Relief, is on record as being in support of this villagization, or forced resettlement. Is that the case?

Mr. MCPHERSON. Maurice Strong, who is Brad Morris's deputy at the U.N., working on the drought, has been to Ethiopia several times, arguing that there ought to be monitoring by people in the resettlement areas, and has generally taken a position that resettlement was wrong for the people.

Senator KASTEN. The same is true of villagization? I am not sure that it is even a word, it is hard to say. Strong is in opposition to this villagization as well? That is not my understanding.

Mr. MCPHERSON. The U.N. has not been as involved in the villagization issue as they have been with the resettlement issue. Frankly, we, along with the British, have really been the strong donors taking positions against villagization. Some other donors have been against resettlement. Some other donors, the Canadians and the Italians particularly, are now putting money into resettlement areas. So the U.N. has a mixed group behind it in the resettlement issue.

I do think, though, that it has been the United States' strong position on resettlement that has had a real impact.

Senator KASTEN. And villagization?

Mr. MCPHERSON. And villagization, but we haven't had the impact on the villagization issue that we have had on the resettlement issue. Your talking about it and really working this issue over up here will help, because villagization is the next big problem.

Senator KASTEN. In a March 20 Ethiopian newspaper, it says the following: "Mr. Maurice Strong said that he was able to observe at first hand the concerted efforts under way to make drought victims settled there self-supporting citizens and appreciated the results achieved to date." Mr. Strong was referring to the villagization program from our reading of this article.

So evidently, either your impression of Mr. Strong's view of villagization is wrong, or this newspaper article is wrong. I just want this particular comment included in the record because I think it is inappropriate for a United Nations Under Secretary to be making that kind of a statement with regard to the villagization program in Ethiopia.

STATUS OF PHILIPPINES SUPPLEMENTAL

Let me shift to the Philippines. We keep hearing discussions, at least, informal discussions about a Philippines supplemental. What is your understanding of the status of such legislation at the present time?

Mr. MCPHERSON. We think that further economic and military assistance to the Philippines is necessary. As I know you remember, I led a team of administration officials to the Philippines a few weeks ago, and we came back with recommendations. Those recommendations are being sorted through. The problems, really, are sources of funding. We would hope to have ideas available to you shortly. But we are committed to the proposition that additional resources, both military and economic, need to go to the Philippines.

EGYPT PIPELINE

Senator KASTEN. Let me shift, if I could, to Egypt. On page 3 of the testimony, the following statement appears: "The trends in Egypt's balance of payments are decidedly negative. Without policy reforms Egypt will soon face problems of the same magnitude as the major debtors, including the need to reschedule debt."

All of us agree that something has got to be done to turn this situation around in Egypt. First of all, what is the current pipeline of assistance to Egypt? Can you give that to us? We are interested in, and this will be for the record, a report by the Mission of AID on what the timetable is for the expenditure of these funds. We discussed this question in our hearings 2 years in a row, maybe 3, and it seems to me that we ought to get to the bottom of this if we can this year. We also want to get a sense of how many of these funds can be deobligated this year, and then where, in your best judgment, these funds could then be used.

I want to point out that we have been at this for awhile. We have been talking about this pipeline for as long as I have been chairing, and I am not satisfied with what has taken place so far. I want to work with AID on this, but if the people in Cairo can't get their act together, we

are going to see some micromanagement by the subcommittee, which I don't think will please anyone.

We have tried, and we have talked about deobligation, we have talked about the pipeline, and we are still sitting here with the same kind of problems. What is the situation—and break it down for us in terms of projects for the pipeline—and what do you see in terms of possibilities on deobligation of some of these funds?

Mr. MCPHERSON. Charlie, can you trace the pipeline in Egypt in the last 3 years?

Mr. GREENLEAF. The pipeline has actually gone down over the last several years. The latest figures I have show that the pipeline is $2.1 billion at the moment. Back in 1982, it was $2.7 billion, down to $2.5 billion in 1983, $2.4 billion in 1984, and $2.2 billion at the end of the last fiscal year. So it is edging downward. In fact, I think that it is fair to say that because of your leadership role out there, there has been a significant effort to get a hold of the pipeline and to cut down on it.

Mr. MCPHERSON. Our projection now is $1.9 billion at the end of this fiscal year.

Mr. GREENLEAF. I am not sure that this is precisely true, but we are working down toward point zero.

Senator KASTEN. This is still a huge amount of money.

Mr. GREENLEAF. It is a large amount of money. It is the largest program that we have other than the Israel program. But when you actually look at the various countries—I can only look at my region, but when you look at the pipeline as compared with the expenditure rates involved, I am less concerned about Egypt than I am about some other countries. I say that, not because I am not concerned about Egypt, but because Frank Kimball, our mission director in Cairo, has made a high priority of decreasing the pipeline. It is a very large program, allocated over $800 million a year.

Senator KASTEN. Can you answer my deobligation question? Of the $2.1 billion, how much can be deobligated this year, and where can these funds be used?

Mr. GREENLEAF. I would not venture to say right here. I would want to talk to the mission further about that, as to where they would want to deobligate. They have, of course, taken advantage of the deobligation situation, and have deobligated almost $29 million in fiscal year 1985 alone.

So they are not unwilling to deobligate, and they take a very strong position with the Egyptians to allow them to do that.

Mr. MCPHERSON. I know, Senator, that it is a frustration to you, but I think we have begun to get the pipeline down.

Senator KASTEN. Essentially, what we are saying is the difference between $2.1 and $2.2 billion. I don't think that it is significant, but at least it is a trend in the right direction. Still, we are sitting there with this huge amount of money, with an economy that is clearly in trouble, and we want to do what we can to help it.

Why don't you summarize before I go to something else.

Mr. MCPHERSON. What we have said to the Egyptians is that we would like to be able to provide a significant portion of our program, or a large portion of our program to them in the form of fast disbursing assistance in connection with their economic reforms. This was submitted to the Egyptians as late as just a couple of weeks ago in a letter from Secretary Shultz. I am going out there in a couple of weeks to talk to them about that.

Why don't we look at this pipeline in Egypt in the way you would accounts receivable, for example, in a business. Let's look by function, and by area, and let's look at how old it is, and let's take the last couple of years. I think that we have a pipeline where we have better control, but we need to establish that for you and your staff, and we would like to look at that, if that would be helpful.

[The information follows:]

EGYPT PIPELINE

In response to a previous committee request for an explanation of the pipeline spend-out ratio, A.I.D. had defined an expenditure rate greater than four years to be considered high. Egypt is currently expending its pipeline at the rate of 1.7 years. The current pipeline represents 2.03 years of obligations. Therefore, compared to other A.I.D. country programs, Egypt has a good pipeline expenditure record.

Over the last several years, the ESF pipeline in Egypt has fallen steadily from $2.7 billion at the end of FY 1982 to $2.2 billion at the end of FY 1985. By the end of FY 1986, the pipeline is projected to decline to approximately $1.95 billion, consisting of $1.5 billion in project assistance and $450 million in program assistance.

Egypt's pipeline reduction is due largely to three main developments: accelerated project implementation, a change in the program mix, and deobligation-reobligation authority. Projects designed in the late 1970s and early 1980s have now reached their peak implementation stages and have registered significant gains in expenditures. More recent projects have been designed to permit more rapid disbursement. The inclusion of the over $100 million cash transfer component of the program in both 1985 and 1986 has ensured faster expenditures. Finally, deobligation-reobligation authority has allowed the Mission to channel resources from slow-moving and sometimes less successful projects to faster-moving activities. In FY 1983, the Mission deobligated $101.9 million and reobligated this amount as a cash transfer in FY 1984. In FY 1985 and FY 1986, $30.3 million and $2.3 million, respectively, were deobligated and then reobligated to other projects which can more effectively use these funds.

The Mission intends to maintain or accelerate, if possible, its current timetable for disbursement of the pipeline. It should be recognized that a pipeline will exist unless the program becomes solely a cash transfer. New projects continue to come on line while older projects receive additional funding. The pipeline in Egypt also exists because:

-- Many large projects, such as water and wastewater and power, involve contributions from other donors and the host country itself. Each donor must ensure that its full share of the overall project costs is covered;

-- Many technical assistance programs are implemented through fully funded multi-year commitments to contract teams from U.S. firms and universities. The advance funding represented by the pipeline assures the contractor that financial difficulties will not be encountered during implementation; and

-- Many of our programs include training of host country participants. When participants are brought to the United States for long-term study, A.I.D.'s policy is to fully fund the cost of this training at the outset to assure the participant and the Egyptian government that the training program can be completed.

Regarding how much of the current pipeline can be deobligated, the Mission expects to deobligate some $8 million with reobligation to the Cairo Sewerage II and Project Development and Support projects.

AID'S PRIVATE SECTOR DEVELOPMENT PROGRAM

Senator KASTEN. If you look at overall funds, we are talking about balance of payment problems, and we are talking about other kinds of problems. We could argue that what we ought to be doing is working toward deobligating some of the project funds, and simply reobligate those funds for balance of payments, and get out of this whole bureaucratic tangle, at least in some degree.

I would look forward to working with you in the way that you described.

ENVIRONMENTAL CONSIDERATIONS IN PROJECTS

Let me skip to just an overall comment that I want to make on the record. As you know, we have been concerned with the manner in which environmental problems have been dealt with in development projects across the world. We have gotten involved in a couple with the World Bank in South America. From all reports that we have received, AID doesn't have a problem. In fact, you all have been doing what we would consider a good job in terms of looking at the environmental aspects of different kinds of development projects of which you are a part. For that, we simply want to thank you and compliment you.

To the degree that you might be able to, we would like to suggest that some of the multilateral development banks that are in the process now of trying to set up reasonable environmental checkoffs get in touch with some of your folks to find out how you have been doing it. I think that you have been doing it in a fair, balanced, and rational way, without spending a whole lot of money on bureaucracy.

There is an awareness here that we need to transfer over to some of these other organizations, and you might be trying to work with them.

I want to ask you one other overall question. The Cato Institute study has suggested the use of more private sector approaches to foreign aid. On an overall basis, this is something that you and I have discussed. It is something that I know a number of people have been working on. Could you just give me an overview of where you think we are going in terms of the use of private sector and private enterprise? It touches on the Africa discussion we have had, but it is much broader. It may be a response or two to some of the things that you see coming out of the Cato Institute.

Mr. MCPHERSON. I think that we are spending a steadily increasing portion of our resources on the private sector and nongovernmental channels. We will have a survey out in about a month or 5 weeks of what we are doing around the world on the private sector generally, and I think those figures will support my contention.

I don't believe that subsidized credit to the private sector is the way to go at this, but I do think that programs such as the Trade and Development Program, which has grown five times in the last 5 years, is a very productive one.

I do think that some credit programs and some training programs for the private sector could be very productive. I think that we have been experimenting and finding quite effective running some traditional

government services through the private sector, such as agricultural extension, health delivery and family planning services. Marketing of contraceptives through retail channels is one of the best ways for family planning programs to work, for example.

In general, we are going in the direction that I want to, and I think that we are learning a lot about how to do this, but it should not be basically a private sector subsidy program because that doesn't really build the private sector either. I will be anxious to provide the committee with our report in a few weeks.

Senator KASTEN. I just want to reemphasize what you already know, and that is that the subcommittee is interested in every possible way to encourage the private sector activities, et cetera, not through subsidies, but through real economic development.

Let me shift. First of all, Senator D'Amato, do you have any questions or comments that you would like to bring forward at this time?

Senator D'AMATO. Mr. Chairman, it is always good to welcome Peter McPherson here. I think that he does an extraordinary job in a continually changing and difficult situation.

I have several questions, Mr. Chairman, that I would like to submit for the record, and ask if they would answer them in writing.

Senator KASTEN. Without objection, it is so ordered.

Senator D'AMATO. I also have a statement that I ask be included, as if read, in the record.

Senator KASTEN. Without objection, it is so ordered.

[The prepared statement of Senator D'Amato follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Mr. Chairman, I welcome the Administrator of the Agency for International Development, M. Peter McPherson, to this hearing to discuss our foreign economic assistance programs.

Not including ESF funding, the administration has requested $2.14 billion for AID programs in fiscal year 1987, an increase of $101 million over adjusted fiscal year 1986 levels. Although I favor many of the programs included in the administration's request, I am concerned that, with severe cuts in other, more popular, domestic programs, the foreign aid program may have to endure significant reductions.

The value of AID's work, however, was brought out during last year's decimating famine in Sub-Sahara Africa. I commend the job you did as Administrator of AID. I believe that, without the tremendous public and private efforts of Americans, that famine would have been much worse.

While it is important for AID to alleviate crises such as famine and refugee problems, it is also important to encourage private sector initiatives in aid recipient nations. I commend your agency's privatization efforts. I have always been concerned that, for some nations, our assistance only encourages dependency. A successful AID program is one that eventually becomes unnecessary for a nation's participation. It is my hope that the result of AID's privatization efforts and other similar projects will reduce or eliminate such dependency.

I want to express my concern over the fiscal year 1987 request of only $10 million for the American Schools and Hospitals Abroad Program. For years, you and the administration have tried to emasculate this program, and each year Congress is forced to restore proper funding levels. Last year, I sponsored an amendment to increase funding for ASHA to $35 million because they had not received an increase since fiscal year 1984.

The ASHA program is one of our major foreign policy successes. The United States is the leader in medical care and education and ASHA shares this useful knowledge with friendly and needy countries. Over 134,000 students study at ASHA-assisted schools, and more than 3.3 million people receive medical care at ASHA-assisted hospitals. While expanding the reach of American technology, ASHA also fosters a positive U.S. image abroad.

Although Gramm-Rudman-Hollings reductions cut ASHA funding to $33.5 million, I believe that the increase is very worthwhile. I am confident that Congress will once again restore funding for the American Schools and Hospitals Abroad Program.

While the Agency for International Development is becoming increasingly crucial to many areas of the world, the resources from which AID can operate are becoming increasingly scarce. Unfortunately, this is true for many domestic programs as well. I look forward to working with you during the difficult budget process this fiscal year.

Thank you, Mr. Chairman.

AID'S SURPLUS DAIRY PROGRAM

Senator KASTEN. The 1986 law requires that $5 million would be provided for new development projects of private entities and cooperatives, utilizing surplus dairy products. Can you tell me the status of those funds?

Ms. BLOCH. Yes. Knowing of your interest in the Kasten amendment, we have promulgated guidelines and sent them to the field on March 28. Proposals are expected on April 25, and we look forward to the use of this money to enhance dairy development projects throughout the world, but $2 million of that has already been allocated to Central America. We will keep you informed.

SUPPORT OF THE AMERICAN UNIVERSITY OF BEIRUT

Senator KASTEN. I have to be fair to my colleague over in the House, who also happens to come from Wisconsin, in terms of whose amendment it is.

Let me switch, if I can, to ASHA. We have received reports that the AID representative in Lebanon, as well as the Ambassador, have lately taken a negative attitude toward U.S. support of the American University in Beirut, as well as the International College, the latter is looking for a small amount of funding, while the American University in Beirut has received $11 million.

I understand that they have been at least considering looking for more funds. Our subcommittee has strongly supported these institutions. We have spent a significant amount of time looking at the contributions particularly of the American University in Beirut. We have learned that support of these institutions pays during some of the tough times in the relationships that we have had between our countries and throughout the Middle East. That was dramatically demonstrated in the case of the American University in Cairo, and the fact that we have been able to keep our support there.

What is your view of these educational institutions in Beirut at this time? Is it your understanding, as it is ours, that there may be feelings within at least some of our representatives over there that we ought to withdraw somewhat from the support of these institutions, and are you now recommending that we continue to support them?

Mr. MCPHERSON. I spent quite a bit of time on this in the last few weeks. We are providing $11 million, as you indicated, and we have projected to them that next fiscal year, drawing from the Lebanon account and from the ASHA account, that we would expect to be able to provide in the range of $9 to $10 million.

The American University of Beirut is now largely attended by Lebanese students. There are severe problems, as you know, with the kidnapings, and just recently, additional kidnapings. They have had some problems within the school itself. We have said to them, we think that you have to figure out how to reduce your deficit—there is about a $5 to $6 million a year deficit in connection with the hospital. In other words, about half or more of our money goes to the hospital deficit. We have been providing anywhere from $10 to $15 million a year now for several years. I brought in Dr. Herter, now the Chairman of the Board, and Mr. Hallaby, who was the long-time Chairman of the Board, and I said to them: "You have to have a plan on how you are going to really deal with the very different environment, problems in the school that you never had before, the sort of permanent deficit on the part of the hospital, and the agricultural school out in the Bekka Valley that is separate from everything else. Where are you going to go, Mr. University Chairman of the Board? Given the money we are putting into this, and the environment there, you have to give us a plan."

They said to us: "We can't get our plan together quick enough." I said: "Let's give you $11 million now." The year is almost up, and they are not going to spend all of the $11 million this year, I don't think, because of the fiscal year involved. So over the next 18 months or so, we are talking about giving them about $20 million, and I think that that is really quite a lot of money.

I think that we have to get from AUB a plan of how they are going to operate in an environment that, as best we can see, is tumultuous and is going to continue to be so.

Senator KASTEN. Are you telling us that, yes, there has been a change in attitude on behalf of representatives of the United States toward these institutions, and that we now have a negative attitude toward them?

Mr. MCPHERSON. No.

Senator KASTEN. We are waiting for a plan in order to get them back on track. How would you characterize the situation?

Mr. MCPHERSON. I would characterize our reaction as this: We think that AUB has changed some.

Senator KASTEN. For the worse.

Mr. MCPHERSON. Yes; we think the environment in which the university is operating has really changed, and I have watched this now for 5 years and I can see the change in a number of ways. We think that we don't have the hope, within the next few months or years, that the situation in Lebanon, the environment in which they operate will be dramatically different.

We see the $5 million deficit in the hospital, and although it may provide the best medical care in Lebanon it is still a big chunk of money for the U.S. taxpayers to pay, aside from the university itself. We say, Mr. University Chairman, you have got to figure out how to deal with this new circumstance.

I would argue that $9 to $10 million already projected for them for fiscal year 1987 is a pretty good vote of confidence. So I don't think that we are backing away from the university, but we are saying, you have to look at this differently.

We had a study done about a year ago on how we thought they could tighten up. Those things have not really been done. They will say, and properly so, that they haven't been done because how could we do it, we don't even have a president on campus, and those are proper concerns.

We have a situation that we don't really have under control in our budget, and we have to be more insistent that they come forth with their plan under a new environment.

AID FUNDING FOR INTERNATIONAL RESEARCH CENTERS

Senator KASTEN. Let me first thank Dr. Brady for the work you have done with us, and also the people in Wisconsin. As I mentioned earlier, I appreciated your being in Wisconsin. You earned your reputation at the International Rice Research Institute in the Philippines, one of the several international research institutes supported by AID.

My question is: What are you going to provide to these institutions this year, and how does that compare with last year?

Is there any work now ongoing at these institutions that you would consider particularly significant or particularly meaningful from the point of view of the subcommittee?

Dr. BRADY. Thank you, Senator. As you know, this is one of my favorite subjects, and I would like to make some comments about that. We are attempting to maintain the funding level that approximates 25 percent of the overall funding levels for these centers. We are doing this because we do believe that this is one of the most significant ways that we can help, not only around the world, but particularly in Africa.

Most people don't know that nearly half the work of these centers is in fact performed in Africa. I believe I can say that there are some significant results that have come forward within the last couple of years, and have come to light particularly during this period of drought in Africa.

Mr. McPherson has mentioned the new drought-tolerant sorghum variety that is being used widely, particularly in Sudan. There are similar new varieties, not only producing high yields, but perhaps, of greater significance, ones that are resistant to the insects, pests, and diseases in Africa. The African farmers do not make as much use as farmers do in this country and elsewhere, of chemical or other means of control. Thus, the varieties being developed are genetically resistant to the insects and diseases.

Cow peas, cassava, and even ordinary beans are examples of crops where the centers are developing resistant varieties that even the poorest farmers on the continent could effectively use. These are examples of the kind of results that are coming from these centers.

AID'S SUCCESS IN PROMOTING PRIVATIZATION

Senator KASTEN. Thank you very much.

I seem like a broken record here, but I wanted to touch on the International Conference on Privatization. During that conference, you, as well as several of your assistant administrators spoke about the importance of Third World countries moving toward privatization—I am referring to the International Conference on Privatization. This has been an economic priority for a number of years. How successful has the administration been in pushing Third World countries toward privatization, or encouraging Third World countries to move toward privatization?

I believe there have been a few successes in a few countries, but as an overall policy, how many countries would you, or maybe others, guess are making a concerted effort that we can point to? Are there particular stars in this group who are moving toward more of a private sector approach? That might be a question for your private enterprise experts as well.

Ms. PEDEN. There is a lot of interest. The level of interest is high.

Senator KASTEN. You had good attention in terms of the press, too.

Ms. PEDEN. We want to keep that enthusiasm and that level of interest up. We want to continue to do things. We find that, given the world situation on debt, a lot of these countries have come to this conclusion on their own, that this is something they should at least try. I think this was evidenced by the fact that we had over 450 participants worldwide at this conference.

I think that we will pursue it with, perhaps, regional conferences that will be more in tune with exactly what is needed in a specific area. The Private Enterprise Bureau is going to be working with the missions. We have funds that the Administrator gave us to help missions to work with host government officials, to study the cases, because each one of them is different. There are no cookie-cutter solutions, and we are aware of that now. Much of this is done in my Bureau in a laboratory type of situation. We are certainly pursuing, I would say, in response to the countries that have an interest, and I would say that probably Turkey would be one of the leaders.

Senator KASTEN. Are there any other examples that you could point to? You say that Turkey is one example of moving toward privatization.

Mr. MCPHERSON. Costa Rica, Somalia, Bangladesh.

Mr. EDELMAN. Mr. Chairman, I am almost hesitant to mention it, but strangely enough Mozambique is one, too. [Laughter.]

Senator KASTEN. I am glad to know that.

Mr. EDELMAN. It is just typical of what is happening in Africa that even Mozambique is privatizing.

Senator KASTEN. I would tell you that one of the reasons that is happening is because this subcommittee has had an interest in that, and this subcommittee has taken the position that aid which is provided to Mozambique will be aid which is provided through the private sector. Therefore, it might have been a little bit more than them attending a conference and seeing the light. They might have decided that this is one of the ways, or this might be the only way that they can receive U.S. assistance. But I am happy to see them working toward—anybody working toward this direction in any way.

SUBMITTED QUESTIONS

Thank you, all of you. I would like to thank you, Peter McPherson, and all of your assistant administrators, for your testimony here today. Because of time constraints that we have tried to work around, there will be a number of questions which we will submit for the record, in addition to Senator D'Amato's questions, and the other questions that have been submitted. We will submit these questions to you, and we hope that you can get back to us in writing within roughly 2 weeks of receipt.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

A.I.D. REVIEW SYSTEM FOR MULTILATERAL BANK PROJECTS

Senator Kasten: As part of the United States Government's efforts to review multilateral development banks (MDB) loan proposals, your Agency has been sending these MDB proposals to your missions for review. It is my understanding that A.I.D. has been very useful in providing valuable on-the-ground experience with respect to these proposals. I have a few questions regarding this matter.

First of all, what budgetary problems does this MDB loan review process cause A.I.D.?

How many staff people are involved in the MDB loan proposal review process in Washington?

How many such proposals were you asked to review during this last year?

Do you get any resource support in order to carry out these reviews?

Mr. McPherson: Before answering your specific questions about A.I.D.'s multilateral development bank project review system, a little background on our early project notification (EPN) system might be helpful. The system was started by A.I.D. in 1982 to ensure that MDB projects are consistent with our bilateral activities as well as to assist the U.S. Government inter-agency process in assessing the quality of MDB projects. We also conduct a review of these projects when they are distributed in final stage for Board approval.

The EPN system covers approximately 550 projects annually in countries where there are active A.I.D. missions and in several non-A.I.D. countries. The system includes selected sectors in the World Bank and the African Development Bank and all projects in the Asian and Inter-American Banks. The missions are requested to comment on a variety of issues including the appropriateness of the country's economic policies, problems with project design, undesirable conflicts with our bilateral program and the adequacy of private sector involvement. In June 1985, we also added a series of questions to deal with environmental concerns about proposed projects.

With regard to staffing, the Donor Coordination Office in A.I.D.'s policy bureau is responsible for coordinating A.I.D.'s follow-up on MDB project issues. This office has generally devoted about two professional staff years annually to supervising and coordinating MDB project review. However, the major substantive review of country and project specific issues is done by our regional bureau country and technical specialists. Incoming cables raising issues and final project papers are sent to the country, technical and programming offices in the relevant regional bureaus who provide detailed input based on their ongoing knowledge of the country and sector issues. Naturally these offices provide varying degrees of attention to the project concerns according to the importance of the issues involved.

With regard to resources, in times of tight budget constraints, this review system is another claim on scarce budgetary resources. However, we believe its importance merits the continuing use of limited resources for this purpose. A.I.D. does not receive resource support from any other agency for this review process.

POLICIES AND PROGRAMS FOR BIOLOGICAL DIVERSITY

Senator Kasten: In 1983, Congress added Section 119 to the Foreign Assistance Act, codifying the importance of preserving and enhancing biological diversity and directing your Agency to work actively on this matter. Specifically, Section 119 calls for development of the United States strategy with "specific policies and programs." The strategy released in February of 1985 is considered by most, including some staff at your Agency, to be basically a laundry list of options without any specific policies or programs. While your recently released "Draft Action Plan" evidently attempts to comply with Section 119, it too does not really appear to fully answer that legislation.

Whereas Section 119 calls for "specific policies and programs," why do both the strategy and the action plan lack these? If the reply to this question is that the documents do include specific policies and programs, would you please provide examples in either that constitute a specific policy or program.

Mr. McPherson: Biological diversity is a euphemism for all life on earth. It encompasses the number of species of microbes, plants, and animals; the genetic variation within each species; and the variety and complexity of habitat and ecosystems. Consequently, the subject is an enormously broad one and difficult to approach in a simplistic fashion.

The U.S. Strategy on the Conservation of Biological Diversity: An Interagency Task Force to Congress, to which you refer, was developed under the leadership of the Agency for International Development (A.I.D.). The Interagency Task Force that developed the strategy reviewed the case for conserving biological diversity, surveyed the many activities and programs of current U.S. Government agencies that affected biological diversity in developing countries, and formulated a comprehensive international biological diversity conservation strategy with specific recommendations for action.

Some 67 specific recommendations for action by A.I.D., other federal agencies, and other institutions are spelled out in that document, including policy recommendations. The very first recommendation of the strategy is a policy recommendation that:

> "...the USG should utilize this strategy for assistance to LDCs in the conservation of natural resources." (p. 19)

Similarly, the Draft Action Plan identifies specific actions A.I.D. will take to implement the recommendations of the strategy. For example, the response of the Draft Action Plan to the above cited strategy recommendation states:

"A.I.D. will review and revise as necessary its Policy Determination 6 on Environment and Development to incorporate the intent of Section 119 of the Foreign Assistance Act (FAA) and to promote the utilization of the Strategy in its dialogue with host countries on development assistance programs and natural resource management." (p. 6)

The strategy and draft action plan were necessary first steps in providing a common basis for action and designing specific actions which can be undertaken within available resources. A.I.D. staff are now taking into account all the comments on the draft action plan and formulating specific programs for my approval by the end of July.

Senator Kasten: How many multilateral development bank projects have been identified by A.I.D. as requiring further examination within the U.S. Government on environmental grounds? What have been the conclusions of those further examinations, if any?

Mr. McPherson: We are currently exploring environmental issues in approximately eight projects under development in the MDBs that have arisen from A.I.D.'s MDB project review system. No conclusions have arisen yet since we are still studying the issues in these projects. There are now ongoing discussions among various U.S. Government agencies about how to upgrade the scrutiny of environmental aspects of MDB projects. In this context A.I.D. is considering upgrading its environmental review process for MDB loans.

BOTSWANA WORLD BANK LIVESTOCK III PROJECT

Senator Kasten: As you may know, I have been particularly concerned with a World Bank project in Botswana known as "Livestock III" which was designed to increase cattle production in that country. Botswana is already experiencing severe environmental difficulties because of overgrazing of cattle. I am aware of a very thoughtful and detailed cable from the A.I.D. mission in Botswana, describing significant defects in the proposed "Livestock III" project.

Was the "Livestock III" project flagged by the "early warning" system?

Mr. McPherson: Yes, the Botswana National Land Management Project was flagged by the "early warning" system.

Senator Kasten: How was information in this cable used by A.I.D. and the rest of the U.S. Government in evaluating the economic and environmental viability of the "Livestock III" project before its approval by the U.S. Executive Director? What were the results of that analysis, if any?

Mr. McPherson: This cable raised several key points based on the mission's knowledge of the Bank's experience with two predecessor loans and information regarding the Bank's early plans for the new project. The cable did, however, endorse the

involvement of the multilateral development banks (MDBs) in the livestock sector as the means to bring about the necessary reforms and provide an opportunity to assist the Government of Botswana to improve practices in this sector.

Before the project came up for final review and approval, A.I.D. technical officers reviewed it in light of these comments and were satisfied that the final design differed in a number of ways from the earlier concept of the project. We felt that the final design responded to most of the A.I.D. mission's concerns. We concurred with Treasury review officers that the concerns had been sufficiently addressed for the United States to support the project.

Senator Kasten: What is A.I.D.'s current view of the economic environmental viability of the "Livestock III" project in Botswana?

Mr. McPherson: A.I.D.'s technical officers are in the process of undertaking a more in-depth review of the project at this time, in light of current information. We will report the results of our analysis as soon as it is completed.

PRIVATIZATION IN JAMAICA

Senator Kasten: Many of us hoped that with the election of Edward Seaga in Jamaica that the country would turn away from parastatals and other government involvement in private sector activities, and instead have a truly private and free market oriented policy. It appears to many of us that, in fact, statism in Jamaica has grown.

Can you provide for the record the change in government assets -- by that I mean state-owned enterprises -- currently and as compared to the beginning of the Seaga administration?

Mr. McPherson: The Government of Jamaica has privatized or is striving to privatize some 46 enterprises. Twelve enterprises had been privatized by early 1986, and the process is nearly completed for five others. Reliable financial data is now available for an additional 15 enterprises which the government intends to sell. In addition, the government has leased 18,000 acres of publicly owned agricultural lands, and announced the availability of 3,000 more acres for lease. Some enterprises, such as the government owned bus company, that are unattractive to private investors, are being closed, and their assets sold.

GAO REPORT: IMPROVED RESPONSE TIME

Senator Kasten: I read with interest and some distress the April 3rd GAO Report: "Famine in Africa: Improving U.S. Response Time for Emergency Relief."

A.I.D. was able to improve on its 1984 performance in delivering emergency food to Africa, but we still have a long way to go.

The problems are overwhelming: "It takes an average of 6 months for program approval and commodity procurement and delivery

to recipient ports in Africa. Some additional shipments took much longer than the average time."

One point in the GAO report I find especially amazing is that "orders for emergency and nonemergency food are, for the most part, handled in the same manner" by the Department of Agriculture.

What can we do to improve this situation?

Mr. McPherson: A.I.D. and the U.S. Department of Agriculture are constantly seeking ways to improve and shorten the timeframe for procuring and shipping emergency relief commodities. As the GAO report indicates, steps have been taken to reduce procurement and shipping time by: prepositioning bulk grain and bags at U.S. ports; procuring processed commodities on a test basis in advance of anticipated requests (blind purchase); and meeting with private and voluntary organizations and industry representatives to seek ways of shortening the time required to obtain and ship commodities.

We believe our efforts to improve response time are meeting with success. You will be encouraged to know, for example, that the lapsed time between approval and delivery in-country for a recent emergency relief shipment of bulk wheat to Haiti was less than one month.

AFRICA DROUGHT AND FAMINE RELIEF

Senator Kasten: The Congress appropriated $137.5 million in the FY 1985 supplemental for the African Drought and Famine Emergency. Those funds had to be obligated by the end of last month.

How many dollars have been obligated but not yet spent?

Mr. McPherson: The total $137.5 million was obligated for African famine relief and recovery prior to the March 31 expiration date. Of this total, $135.0 million was obligated for disaster assistance and $2.5 million for disaster-related operating expenses. As of April 30, 1986, $77.4 million of the disaster supplemental funds had been disbursed. The funds were obligated in the form of grants, contracts and allotments in over 135 separate transactions.

FY 1986 AFRICA ECONOMIC POLICY REFORM PROGRAMS

Senator Kasten: The FY 1985 Africa economic policy reform funds were allocated to:

Malawi	$15 million
Mali	$18 million
Mauritius	$ 5 million
Rwanda	$12 million
Zambia	$25 million

Can you give the subcommittee an idea of where the FY 1986 funds will go? Is it the Administration's intention to continue

to allocate funds to the same countries as long as they continue on the right economic track? Or will these grants be a one time incentive for reform?

Mr. McPherson: Present plans call for four African economic policy reform programs (AEPRPs) in FY 1986. These are:

Guinea	$10 million
Senegal	$15 million
Togo	$ 8.75 million
Zaire	$15 million
TOTAL	$48.75 million

The Administration intends to treat each AEPRP as separate and independent. Thus any past recipient must compete for new resources along with countries which have not previously been involved in the program. In practice, we expect that it will take at least a year to gain implementation experience in a given country, and thus, in general, we would not expect any country to receive an AEPRP two years running. However, where the pace of reform is particularly rapid, and where timeliness of assistance is particularly important, then this general expectation may not hold.

ECONOMIC ASSISTANCE PROGRAM IN KENYA

Senator Kasten: I notice a shift of your proposed program for Kenya in Fiscal Year 1987 -- greater emphasis on private sector development, which is welcome; a decrease from Fiscal Year 1986 in both agriculture and population planning.

I understand that, although Kenya was affected by the drought, it was much less so than other African countries. The United States has worked toward agricultural reform in that country. What is the current assessment of Kenya's move towards agricultural reform?

Mr. McPherson: Droughts seriously affected Kenya's agriculture sector in 1979, 1980, and 1984. However, the sector recovered in 1985 due to good rains and heavy planting, resulting in near-record maize and wheat harvests. The current assessment of Kenya's move toward agricultural reform is encouraging. Reforms in pricing, grain marketing and distribution of fertilizer all are providing incentives for increased agricultural production. In 1986, for example, about 30 private firms are expected to distribute fertilizer compared to 16 in 1985 and none two years ago. Prices of maize and wheat have been increased to approximately world market prices. In grain marketing, the government also has recently authorized private grain millers to purchase directly from farmers, who previously had to sell to the government's National Cereals and Produce Board.

Senator Kasten: What is this year's projected harvest?

Mr. McPherson: In 1984-85, the harvest for maize was only 1.4 million tons and for wheat merely 144,000 tons due to Kenya's

worst drought in this century. These figures are down from the previous year's total of 2.2 million tons for maize and 251,000 tons for wheat. For the 1985-86 crop year, higher prices, good weather and increased planting should lead to maize production of about 2.65 million tons and wheat production should reach about 240,000 tons.

Senator Kasten: You state in your justification material that of the major unresolved problems in Kenya "the most serious of these is its 4 percent annual population growth rate (the world's highest) which has turned positive GNP growth rates into negative per capita growth." The Administration is requesting $2,039,000 for the population planning program for FY 1987 -- a cut of $5,761,000 from last year. Why are we cutting that program?

Mr. McPherson: The Agency is not cutting the Kenya Family Planning Services and Support Program. The life-of-project (LOP) amount for this program is approximately $43 million and each year a portion of the LOP is obligated. The $2,039,000 requested is for the FY 1987 obligation. Each year's obligation figures may be different depending upon the availability of funds.

Senator Kasten: You are also asking for an increase from $14.3 million to $22 million in FY 1987, to be used for road construction. Wouldn't scarce Economic Support Funds be put to better use in balance-of-payments support in Kenya, especially since Kenya is successfully living up to its IMF agreement? Why not use development assistance dollars for roads, and ESF for balance of payments support?

Mr. McPherson: Economic Support Funds (ESF) have not been used for infrastructure development in Kenya, nor do we intend to use the FY 1987 ESF for road construction. The 1987 ESF will be used for private sector fertilizer imports for agricultural development and for a general commodity import program.

THE EMERGENCY SITUATION IN AFRICA

Senator Kasten: In December the United Nations Office for Emergency Operations in Africa (UN/OEOA) reported that, even though African food production is way up, it is anticipated that tens of thousands will die in 1986. The production figures we see are: that in Sudan food grain output was up from 1.5 million tons in 1984 to 4.6 million in 1985; in western Africa, grain output of seven formerly drought-affected countries was 6.7 million tons (half again as much as in 1984). Where are the problem areas now? Are we unable to get the African-produced food to certain areas? Is it a refugee problem? A senior economist for the U.N. Food and Agriculture Organization was reported as saying the United States, which accounted for more than half of the relief food pledged for Africa in 1986, has shown little interest in giving financial aid to redistribute the food produced in Africa. Is the United States reluctant to assist in moving food in Africa from the production areas to where it is needed?

Of the funds made available under the FY 1985 urgent supplemental for famine relief in Africa, including food aid, how

much has been spent so far, and how much is left? What is your projection of need through the end of FY 1986 in the drought-affected areas of Africa? Do you anticipate adequate funds are available?

Mr. McPherson: You have asked a number of different questions relating to famine relief. As you know, famine relief in Africa is a very complex problem, one which has occupied the United States Government a great deal the past few years. Our efforts are increasingly successful, and I believe our interventions, and the interventions of others, have literally meant the difference between life and death for millions of people in sub-Saharan Africa.

The major problem areas at this time, spring of 1986, are in four countries: Angola, Ethiopia, Mozambique and Sudan. While each of the countries has suffered from drought in the recent past, and some for a number of years, the food shortages and emergencies are also due to a number of other factors. Internal warfare exists in every one of these countries, and this has a serious impact not only on distribution of emergency relief but on life in general, and agricultural production in particular. Agricultural policies in Angola, Ethiopia and, to a lesser extent, Mozambique, foster state farm systems. I believe these systems do not provide an adequate incentive to any farmer to produce, and thereby, in fact, discourage agricultural production. The impact of refugees and displaced persons is less of a factor, but still important. In summation, there are a number of adverse factors which have made these four countries more needy than other sub-Saharan nations in terms of emergency relief assistance.

Botswana and Cape Verde are the other two countries which are problems at this time, according to the UN/OEOA. But while both are suffering the effects of drought, and have for a number of consecutive years, neither faces internal warfare, agricultural policies inimical to increased agricultural production, or other variables which make it more difficult to provide emergency assistance. As a result, though serious, the situations in those countries are manageable.

We are just now heading into the rainy season in West Africa. The United States is monitoring the situation carefully, not only for signs of drought but also for signs of population displacement and other indicators of famine. We will be more alert to these signs than in the past, and that will allow us to design emergency relief programs that are not only more effective, but undertaken earlier than in the past.

The United States supports use of African-grown food to meet Africa's needs. In fact, the United States has always taken the lead in trying to ensure locally-produced food surpluses are distributed to deficit regions within country, or within the region, whenever such a plan makes sense. In the great Sahelian drought in the early 1970s, we initiated the policy of buying locally-grown food in Africa and transferring it to deficit regions within the country, or nearby. In the past few years, we have undertaken several programs whereby we have swapped U.S. food

for locally-grown food in Africa, and then paid to transfer the locally-grown food to another country in the region. In FY 1986 alone, for example, the United States has authorized two triangular trades, with Zimbabwe and Malawi, in which we will supply U.S. wheat to both - swapping the wheat for Malawian and Zimbabwean white maize, which will then be shipped to food deficit Mozambique. In both cases, the United States is paying transport costs associated with providing our food and moving the maize to Mozambique. In Sudan so far this year, the United States has purchased almost 60,000 metric tons of dura (sorghum) and has paid the cost of moving that dura to the food deficit western, central and northern regions of Sudan. I would underline that there are many different ways to supply food to food deficit areas, and we always hope to have the luxury of considering a number of different options in providing emergency assistance. When it makes sense to purchase food locally in a surplus area and move it to a deficit area, then we consider seriously such a response.

The FY 1985 urgent supplemental for African famine relief appropriated $800 million, of which:

a. $400 million was for P.L. 480 Title II emergency assistance;

b. $175 million was for non-P.L. 480 Title II emergency relief and recovery assistance (including $37.5 million for refugees); and

c. $225 million was established as a P.L. 480 Title II Presidential emergency reserve for African famine relief.

The $400 million and $175 million appropriations were obligated by the legislated expiration dates (December 31, 1985 and March 31, 1986, respectively). We have not had to activate the $225 million P.L. 480 Title II Presidential reserve because emergency food needs in Africa are much lower this year (the United States has approved only 600,000 metric tons in emergency food aid in FY 1986 in comparison to FY 1985's 1.8 million MT), and available funds have met the need. I am confident that we will be able to meet presently known and anticipated emergency food aid requirements in sub-Saharan Africa from available funds.

AFGHANISTAN CROSS-BORDER HUMANITARIAN ASSISTANCE

Senator Kasten: The Committee is well aware of the pressing need for humanitarian assistance for the people of Afghanistan. Of a pre-war population of 15 million, approximately 1 million have perished, 5 million are refugees in other countries, and several million more are internal refugees. Because of this abhorrent situation, Congress last year appropriated $15 million for humanitarian assistance.

Your updates to this Committee on the program have been very helpful. You have indicated your plans for programs in the area of health, education, commodities and agriculture. Although these plans are all worthwhile, and are a good beginning, they realistically are more ambitious than a $15 million program.

Realistically, what would be necessary to effectively accomplish your objectives?

Mr. McPherson: Since this is a new, rapidly evolving program, the eventual cost is still unknown. For now, we have decided to focus on the highest priority activities with short-term impact within the $15 million presently available.

Senator Kasten: What part can be accomplished for the $15 million?

Mr. McPherson: Our main priorities are to expand health and education activities within Afghanistan and to provide commodity support working closely with the Afghan resistance alliance ($8.7 million). Most of the nearly $5.2 million budgeted for private and voluntary organizations (PVOs) will fund health activities. The remaining $1.1 million will fund technical assistance and project design.

Senator Kasten: What cannot be done?

Mr. McPherson: We have chosen to delay initiation of our agricultural sector project until we have a better understanding of the needs in this sector and how best to be of assistance. We are funding several PVO agricultural activities in the meantime. In addition, several PVO proposals cannot be considered for funding within the $15 million earmarked for FY 1986.

Senator Kasten: What is the Agency's ongoing commitment to this project?

Mr. McPherson: A.I.D. is committed to providing humanitarian assistance to the Afghans and has worked closely with the Department of State to help provide an integrated U.S. Government response to the Afghan situation. We are confident of the continuing support of Congress and the American people in these efforts.

Senator Kasten: What will realistically be needed in the coming fiscal year and beyond to maintain programs and begin new ones as necessary?

Mr. McPherson: For FY 1987 we have requested $15 million for our cross-border humanitarian assistance program. This level is expected to allow us to fund incrementally our health, education, and commodity support projects. We expect these projects to constitute the core of our cross-border program for several years to come. Future budget requests will depend upon progress in implementing the program we have planned, our success in forging workable institutional linkages with the resistance alliance and the national budget constraints we then face.

Senator Kasten: Do you anticipate more realistic budget requests for FY 1988?

Mr. McPherson: Given the highly uncertain and unpredictable wartime environment we face and our own budget constraints, I

believe our current budget request is realistic. We expect future requests to be equally realistic.

Senator Kasten: This program, starting with the reprogramming in 1985, has been very slow in getting started. Has the problem in getting this program under way been resolved?

Mr. McPherson: I think it is something of a misperception to believe that this program has been slow in getting started. In fact, the start-up time for this program has been shorter than for most new A.I.D. programs, especially if you take into account the wartime environment in which we must work.

Senator Kasten: What progress is being made this year in funding projects?

Mr. McPherson: All of the $8 million short-term humanitarian assistance made available in FY 1985 has been obligated and $5.5 million has been disbursed. Of the roughly $15 million available in FY 1986 for the longer-term program, we have obligated $2.2 million to date in grants to private and voluntary organizations.

Senator Kasten: Will the funding be obligated by the end of this fiscal year?

Mr. McPherson: We anticipate no difficulties obligating the remainder of our budget by September 30.

Senator Kasten: How much is currently pending in grant requests?

Mr. McPherson: We have received grant requests from private and voluntary organizations in excess of $20 million.

STAFFING IMPLICATIONS OF CASH TRANSFER

Senator Kasten: What has been the impact on the U.S. A.I.D. Egypt mission from providing some of the ESF in the form of cash transfers? For example: has it relieved some of the bureau staff of managing a very large project portfolio? Have staff numbers decreased due to providing some form of the ESF as cash?

Has it contributed to more efficient use of staff?

Does A.I.D. expect to increase the use of cash transfers (including sector development grants) in its assistance program for Egypt?

Mr. McPherson: The cash transfers have not been provided at the expense of the project portfolio. The cash transfers to date have been appropriated (1) as supplemental assistance for Egypt, (2) in lieu of some of the Commodity Import Program (CIP) program, and (3) from deobligation of residual funds. While some direct hire reduction has been achieved through greater program concentration, there have been no reductions as a result of the cash transfer, nor have cash transfers contributed to more efficient use of staff.

A.I.D. expects to continue to distribute a portion of the ESF assistance in the form of cash transfers under circumstances of continuing balance-of-payments pressure, and in support of our macro-economic policy dialogue. A.I.D. will consider some increase in the cash component of our program if it is related to the implementation of a comprehensive stabilization and adjustment program, which is aimed at closing the balance-of-payments financing gap and which can be supported by the international financial community.

ECONOMIC POLICY REFORM IN EGYPT

Senator Kasten: What progress has the Government of Egypt made in changing its economic policies, including price controls and subsidies? How has A.I.D. helped to promote these changes?

Mr. McPherson: The recent sharp decline in oil prices, coming on top of already severe structural problems, has created a new sense of urgency among Egypt's economic leadership. The framework for a comprehensive economic reform program was approved earlier this year and a detailed three-year implementation plan is in the process of being developed. In the meantime, during the past year the government has:

--cut food subsidies; raised wheat procurement prices to almost U.S. levels;

--reduced energy subsidies by moving electricity prices up 37 percent, gasoline prices up 25 to 33 percent, and doubling the price of fuel oil for the generation of electricity; and

--cut back on consumer imports to some degree in concert with a number of more modest steps such as raising airline fares.

While these steps have been in the right direction, they have not been sufficient to reverse deteriorating trends in budgetary and balance-of-payments deficits. A.I.D. has been engaged in extensive discussions with Egyptian policy-makers during the course of the past year. There has been considerable agreement about the reform agenda, including the areas of highest priority, i.e., budget and balance-of-payments deficit reduction, improved debt management, an expanded role for the private sector and allowance for greater influence by market-determined prices. Also, A.I.D. has encouraged the Egyptians to seek broad support from other bilateral and multilateral donors who have expressed a willingness to support the government's difficult reform program. Acceleration of the reform process has been called for by President Mubarak despite the February disturbances, and the Egyptian cabinet has given assurances that new economic measures will soon be introduced.

IMPACT OF INDONESIAN AND KENYAN AUSTERITY MEASURES ON U.S. DEVELOPMENT PROGRAMS IN THOSE COUNTRIES

Senator Kasten: It has been reported that because of new austerity programs, the Governments of Indonesia and Kenya have set limits on any new development projects in their countries.

Particularly, Indonesia has announced no new development projects beginning this month. Indonesia's new austerity program also severely limits any new soft loans.

We can only applaud the courage and foresight of these governments in coming to terms with their budget difficulties. How do you foresee the effect on U.S. development programs slated for those countries?

Mr. McPherson: Indonesia has drastically scaled back new development projects in the FY 1986/1987 budget in order to concentrate resources on existing efforts. In FY 1986/1987, Indonesia will initiate only new projects financed by donors. The uncertain outlook for future oil revenues has made it impossible to define the full extent of austerity measures. Accordingly, we cannot yet estimate the total impact of the austerity measures on U.S. activities. Options under discussion have included reduced levels of effort and longer life of projects, although in general donor projects are receiving priority for funding.

Kenya continues to examine its development project portfolio and has chaired several meetings with donors on the impact of austerity measures on development programs. As part of its budget rationalization process, the government has begun to rank order its projects. It has decided to complete or terminate ongoing projects before starting new ones. The United States has limited new starts to those activities consistent with Kenya's needs and the budget rationalization process.

BANGLADESH POPULATION PROGRAM

Senator Kasten: There has been some controversy of late, over a report on the A.I.D. population program in Bangladesh. There are very serious allegations that the program is supporting abortion and/or incentives for sterilizations, which, it is alleged, is contrary to law.

What can you tell us about this?

Mr. McPherson: The report to which you refer is a publication last year by William M. O'Reilly entitled "The Deadly Neo-Colonialism." We share Mr. O'Reilly's concern for protecting the right of the Bangladesh people to freely determine their family size. However, we do not agree with his assertion that this right is being compromised in the Bangladesh family planning program. The statements in his article alleging U.S. support for abortion and incentives for sterilization do not accurately reflect the situation there. In fact, our program fully complies with Section 104(f) of the Foreign Assistance Act of 1961, as amended, and other relevant statutes.

Because of our concern for these issues and to answer questions from members of Congress, we have prepared a statement which responds to the specific allegations in Mr. O'Reilly's article.

With your permission, Mr. Chairman, I would like to insert that statement into the record.

Sterilization and Abortion in Bangladesh

This memorandum addresses the allegations in a recent article by William O'Reilly, entitled The Deadly Neocolonialism, that the United States finances abortions and incentives for sterilizations in Bangladesh. If this were true, both would be violations of section 104(f) of the Foreign Assistance Act of 1961, as amended, (the "Act") and A.I.D. policy. Neither allegation, however, is correct.

Mr. O'Reilly's major charges may be summarized generally as follows: (1) the Bangladesh population program is coercive; (2) sanitary garments provided to persons who are sterilized and payments made to them and persons who accompany them for the surgical procedure are incentives which induce acceptance of sterilization; and (3) the donors, including A.I.D., agree to finance specific components of the Bangladesh population program and, under the "displacement concept," the United States supports abortion in Bangladesh, even though no A.I.D. funds are used for that purpose, because the World Bank and United Nations Fund for Population Activity (UNFPA) allegedly finance the salaries of persons who perform abortions and UNFPA provides menstrual regulation kits for the program.

Although Mr. O'Reilly contends that the Bangladesh program is coercive, his article contains no evidence of forced sterilizations or abortions in that country and carefully taken surveys and other evidence indicates that the program is not coercive.

As the following discussion in part I of this memorandum shows, payments in the Bangladesh program are not incentives to induce people to accept sterilization. Sterilization involves costs which are not incurred when a person chooses other forms of contraception simply because sterilization is a surgical procedure involving medical risks and convalescence which are not associated with other methods. Payments in the Bangladesh sterilization program cover these additional costs.

The surgical procedure must be performed in a medically safe environment. Since Bangladesh is a poor country and cannot afford medical facilities at locations convenient for all, people must travel to central locations where the surgery can be performed safely. There are costs involved with travel; food must be provided while people are away from home; men and women must convalesce from the surgical procedure for a reasonable period abstaining from their usual work and duties; surgically related garments are needed to minimize the possibility of infection during post-operative convalescence; persons choosing sterilization generally will be accompanied by a friend or a relative who helps the person return home after the operation. All these features involve costs not associated with other methods of contraception which would be disincentives for a person's choosing sterilization voluntarily if it were necessary for the person to bear these costs.

A.I.D. has operated its population program, with the knowledge of Congress, in accordance with the 1982 Policy Paper on Population Assistance. This paper describes the longstanding distinction between incentives which induce a person to be sterilized and reasonable compensation for extra costs associated with the surgical procedure.

The amounts paid in Bangladesh are reasonable and have much less economic value than is suggested in Mr. O'Reilly's article. Moreover, recent surveys of sterilization prevalence and user satisfaction indicate that user satisfaction in Bangladesh is comparable to similar surveys conducted in the United States and that the prevalence of sterilization in Bangladesh is much less than in the United States.

As the discussion regarding abortion in part II of this memorandum demonstrates, A.I.D. does not finance or support abortion in Bangladesh in violation of either funding restrictions of the Act or Administration policy. Section 104(f) of the Act prohibits the use of A.I.D. funds to pay for abortions. There is no allegation in Mr. O'Reilly's article that A.I.D. pays any costs associated with abortion.

The policy of this Administration is to provide firm opposition to abortion as a method of family planning, but also to provide strong support for voluntary family planning. In countries where abortion is legal, A.I.D. funds are put in a segregated account. In this way, we respect the sovereignty of other nations, while assuring that none of A.I.D.'s funds are used for abortion.

Both the Act and Administration policy when dealing with foreign nations restrict the use of A.I.D. funds for abortions, and the "displacement concept" is not applicable under either. Moreover, it is our understanding that neither the World Bank nor UNFPA finances the salaries of persons who perform abortions in Bangladesh nor the procurement of menstrual regulation kits for use there.

Finally, Mr. O'Reilly lists nine specific allegations in the executive summary of his article which are addressed below.

Part I
Sterilization

The objective of the funding restriction in section 104(f) of the Act and A.I.D. policy is to ensure that a person voluntarily chooses sterilization with the understanding that it is an irreversible surgical procedure which will prevent conception permanently. A person must not be coerced by force or induced by any incentive to have an operation which the person would not otherwise want.

Over the years, A.I.D. has developed elaborate procedures to ensure that informed consent for sterilization is obtained from a person, and documented, and to ensure that incentive payments are not made to induce acceptance of sterilization. These procedures

are most recently incorporated in the "A.I.D. Policy Paper, Population Assistance," September 1982, which states as follows at page 14:

> "Further, A.I.D. support generally cannot be provided to VS [voluntary sterilization] services which include incentive payments paid to potential acceptors. For example, a VS program supported by A.I.D. cannot be supplemented with acceptor incentives to induce acceptance of sterilization services. Determination of what constitutes an incentive must be made locally based on thorough knowledge of social and economic circumstances of potential acceptors. In general, recompense to acceptors for legitimate, extra expenses related to VS program services such as transportation, food during confinement, medicines, surgically related garments and dressings and the value of lost work are not considered incentive payments and are eligible for A.I.D. support. It should be emphasized that these payments must be of a reasonable nature and aimed at making VS services equally available at the same cost as other contraceptive services. For example, payment for lost work must correspond to a reasonable estimate of the value of lost labor over a reasonable duration of convalescence."

A.I.D. has operated its population program, with the knowledge of Congress, in accordance with the Population Policy Statement which includes this distinction between "incentives" as opposed to compensation for extra costs associated with the surgical sterilization procedure. In fact, Title II of the 1985 Continuing Resolution (P.L. 98-473) stated, under the heading "Population, Development Assistance": "It is further the sense of the House of Representatives that United States population assistance shall be administered with and faithful to these laws as interpreted by A.I.D.'s 1982 Policy Paper: Population Assistance . . . "

Persons who choose sterilization rather than other methods of family planning in Bangladesh or any other country incur additional costs that are not borne by a person who chooses other methods such as condoms, pills or natural family planning. These are costs associated with sterilization because it is a surgical procedure. These costs are a disincentive to a poor person's voluntary choice of this method. Reimbursement of reasonable amounts designed to cover the extra expenses of traveling to locations where the surgical procedure is performed in a safe environment, obtaining food during confinement, and covering the value of lost wages during convalescence from the procedure is not an "incentive". A.I.D. policy has been to pay such associated costs, with the knowledge of Congress, for several years.

The 175 taka reimbursement (equal to about U.S. $6.00) in Bangladesh is reasonable and is not an incentive. As is discussed in detail below, this amount has much less economic value than alleged by Mr. O'Reilly. The reimbursement of 175 taka consists of an average of about 90 taka for lost wages which is equivalent to about two days salary for an urban garment worker, four days salary for an unskilled male rural worker, or six days salary for an unskilled female rural worker. To put this in perspective, the

balance of an average of 85 taka for transport and food would not be sufficient to feed a typical Bangladeshi family for two days and are equal to the average costs actually incurred by the people involved. We are convinced that these transportation and food costs are those actually incurred because we have verified this in the field. Both men and women are counselled to rest for at least four days following the operation.

People who are sterilized also receive a clean garment (lungi for men or sari for women valued at $1.75 and $3.00, respectively) to minimize the probability of infection. To date, physicians engaged in the clinical oversight of the Bangladesh sterilization program have been unable to identify a practical and less expensive alternative to the provision of a clean sari or lungi. Disposable or washable surgical garb, among the alternatives considered, would not help minimize the chances of infection once the person had left the clinic.

Repeated surveys in Bangladesh show that a substantial number of couples want no more children, but lack access to safe and effective means of contraception. The vast majority of Bangladeshi couples wanting to practice family planning have had the number of children they want and are seeking a permanent contraceptive method. It should be pointed out that Bangladesh regulations preclude funding for sterilization unless the couple have at least two children and the youngest is at least a year old. Male and female sterilization constitutes one of the safest and most effective means of providing protection against unwanted pregnancy. (It is by far the most commonly used method of family planning in the United States.) Of those couples of reproductive age in the U.S. who practice contraception, 41.0 percent (1982) use voluntary sterilization (Contraceptive Practice Among American Women, 1973-1982. Family Planning Perspectives, Vol. 16, No. 6, 1984).

In a country as poor as Bangladesh, the associated costs of a surgical procedure constitute a major financial disincentive to a person's voluntarily choosing sterilization over other methods. The reimbursements financed by A.I.D., therefore, are designed to neutralize these financial disincentives, thereby making sterilization accessible to low income couples on the same basis as other methods.

The A.I.D. Mission in Bangladesh has been notably vigilant in monitoring all aspects of A.I.D.'s population assistance program there through quarterly independent audits, staff field visits and numerous special studies. A recent survey of women sterilized in Bangladesh found that approximately 98 percent continue to be happy with their choice. In the few cases where persons expressed regret, their concerns for the most part were because the procedure failed or for health reasons not necessarily associated with the operation. A.I.D.'s involvement, if anything, has helped to raise the medical standards of the voluntary sterilization program. Contrary to the statements of Mr. O'Reilly, the evidence is overwhelming that those persons who are sterilized in Bangladesh do so voluntarily and with full knowledge of the permanent nature of the surgical procedure.

Part II
Abortion

Section 104(f) of the Act prohibits the use of foreign assistance funds to pay for abortion as a method of family planning. Mr. O'Reilly does not allege that A.I.D. funding is used to pay for abortions.

The policy of this Administration is opposition to abortion as a method of family planning. This policy, which was approved by the White House for the International Conference on Population held in Mexico City during August, 1984, specifically states that "when dealing with nations which support abortion with funds not provided by the United States Government, the United States will contribute to such nations through segregated accounts which cannot be used for abortion." It was decided to contribute to segregated accounts rather than not provide money to governments which fund abortions with their own or others' money. This was done, among other reasons, out of respect of the sovereignty of other governments. Note that the policy is more stringent when the United States is not dealing with another sovereign state. Specifically, population assistance may not be provided to foreign nongovernmental organizations which perform or actively promote abortion as a method of family planning with funds derived from any source.

In summary, A.I.D. has vigorously implemented the Administration's anti-abortion population policy. The "displacement" concept of accounting is not applicable under either section 104(f) of the Act, which restricts the use of A.I.D. funds, or under the Mexico City policy as it relates to the population programs of other sovereign states. Neither the law nor the policy is violated with the A.I.D. funding going to Bangladesh.

Part III
Comments on Specific Allegations

The main allegations about A.I.D.'s support for the Bangladesh voluntary sterilization program are listed in the executive summary of the article. The allegations, as stated by Mr. O'Reilly in the executive summary, and A.I.D.'s responses follow.

Allegation 1. The government of Bangladesh is moving towards the Chinese model of population control with a national policy designed to reduce the birth rate drastically.

Response

-- In China, a one-child-per family policy has led to coercion. Bangladesh has no one-child-per-family policy, and relies upon voluntary family planning programs to achieve its demographic goals. The voluntary approach has been consistently supported by the Bangladesh Government.

-- In fact, Bangladesh Government regulation prohibits funding for sterilizations unless the couple has at least two children, of whom the youngest is at least one year old.

-- The Government program does provide information and publicity encouraging a two-child norm, but no policy limiting families to two children has been proposed.

Allegation 2. U.S. foreign aid is used to fund abortions and monetary incentives for sterilization in violation of the Foreign Assistance Act.

Response

a. abortion

-- No U.S. funds are used to support abortion services in Bangladesh. Since 1981, when this Administration assumed responsibility for the program, the Administration has been vigilant in this respect.

-- In 1984, this Administration adopted an even stronger policy in opposition to abortion as a method of family planning. The policy was announced at the Mexico City International Conference on Population in August 1984. In accordance with this policy, A.I.D. may provide population assistance to governments which include abortion in their programs, but A.I.D. funds must be placed in segregated accounts to ensure that no A.I.D. funds may be used to support abortion activity of the foreign government. This policy is followed in Bangladesh.

-- Moreover, A.I.D. does not provide population assistance to foreign nongovernmental organizations which perform or actively promote abortion as a method of family planning with funds derived from any source. This policy also is followed in Bangladesh.

b. incentives for sterilization

-- An incentive would be a payment which induces persons to have a sterilization operation which they otherwise would not want. Reimbursements closely related to actual costs are not incentives.

-- The Bangladesh voluntary sterilization program provides men and women who voluntarily choose to limit their family size the opportunity to do so with an effective and safe procedure. Sterilization is readily available to American couples and is the most popular method of family planning in the U.S. today; indeed, it is the most popular method throughout the world. In the U.S., nearly 30 percent of all married couples of reproductive age use sterilization as a method of contraception (Voluntary Sterilization: An International Factbook, published by the Association for Voluntary Sterilization), compared to about 7.4 percent in Bangladesh.

-- In order to make this service accessible to the majority of Bangladeshi couples who want it, the program finances reimbursements of an amount intended to cover the costs incurred by a person in getting the operation: namely transportation, food, and lost wages. Access to quality services requires travel by clients because safe operating conditions can only be offered and supervised in a limited number of geographically dispersed centers. In addition, people receive a clean garment to minimize the probability of infection. A study to confirm that these garments are being used as intended is currently being designed.

-- Congress knows that A.I.D. implements its population program in accordance with the 1982 Policy Paper on Population Assistance and this Paper describes the distinction between "incentives" and reimbursements for costs. The payments in Bangladesh are made in accordance with this policy.

-- We have consistently monitored the operation of this program with sample surveys and special investigations to ensure that no "incentive" is produced by these reimbursements. For example, an independent team of researchers in Bangladesh in 1985 found that the payments follow closely actual costs incurred. Other studies consistently show that people are not being persuaded to accept a method which they do not want. On the contrary, a follow-up survey of sterilization cases found that 98 percent continued to be happy with their choice. Almost half of those interviewed had recommended sterilization to friends and relatives and 96 percent said they intended to do so (Association for Voluntary Sterilization Follow-up Survey, Mitra and Associates). The few who express dissatisfaction do so because the operation failed or for health reasons not necessarily associated with the operation. (The 12-month satisfaction rate in the United States is about 97 percent.)

-- There has been no pressure for greater monetary payments. To date, the only change has been a one-time adjustment in the reimbursement level to reflect inflation and a change to equalize travel and food reimbursements to "helpers". (Helpers are persons, often a friend, relative, or traditional midwife from the person's community, who accompanies the person to the clinic, remains with them while confined at the clinic (to fetch food, etc.), and assists the person in returning home.)

Allegation 3. The U.S. foreign aid bureaucracy continues to ignore Administration directives on population policy and continues to support abortion as a method of family planning. Salaries of abortionists are routinely paid from funds provided by A.I.D. to the UNFPA, and funds appropriated directly to the President which are channeled through the U.S. Department of the Treasury to the World Bank.

Response

-- As noted above, A.I.D. vigorously implements the Administration anti-abortion policy. With regard to UNFPA,

the White House policy statement provides that no part of the United States contribution may be used for abortion and that the United States receive concrete assurances that UNFPA is not engaged in, or providing funding for abortion. UNFPA has provided the assurance required under the White House policy and an A.I.D. review of the UNFPA program worldwide conducted in 1985 confirmed that assurance as to Bangladesh.

-- We are told by the World Bank that they do not provide salary support to physicians or other health workers who might provide abortions. The Bank does finance the construction of multi-purpose health facilities which will be used for all medical services available as part of the Government's health program.

Allegation 4. Sterilization programs supported by the U.S. are based on quotas specifically targeting the poor and unemployed. Sterilization recruiters are paid on an incentive basis for performance against quotas.

Response

-- There are no quotas and there is no targeting of the poor and unemployed. However, most of the population is poor. Bangladesh is a country with a $130 average annual per capita income - one of the lowest in the world. Its work force experiences high unemployment, high underemployment and high seasonal unemployment. Many who seek sterilization services, therefore, are poor and unemployed.

-- The sterilization programs in Bangladesh are not based on quotas. Certain performance objectives are established for both maternal-child health and family planning services. These targets serve as guidelines against which progress can be measured.

-- Setting performance objectives was introduced by the Government as a management tool to measure progress in meeting program objectives. However, this system, as with many other management methods in developing countries, has not actually been implemented at the field level. In any event, we believe sterilization should not be included in such a system, and we are discussing its deletion with the Government. We are confident the Government of Bangladesh will agree to replace this system which has been essentially irrelevant in any event.

Allegation 5. The three major donors, UNFPA, A.I.D. and the World Bank, collaborate in the planning and implementation of the overall population control program. Each provides funds for specific expense categories identified in an "earmarked" budget. They also apply the "displacement" concept of accounting which provides for an interchange of "earmarked" items so that expenses which are "unallowable" by one donor may be provided by another donor. This combination of budgeting and accounting techniques provides a scheme to cover up and avoid direct responsibility of the U.S. in providing for the funding of abortions and injectable contraceptives.

Response

-- Section 104(f) of the Act prohibits the use of A.I.D. funds to "pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortion". Congress chose to track A.I.D. funds in enacting this provision, and it does not incorporate the "displacement" concept of accounting.

-- The displacement concept also is not applicable under the Administration's policy when family planning assistance is provided to nations which include abortion in their population programs. In developing its population policy, which was approved by the White House, the Administration decided to contribute funds to segregated accounts as opposed to cutting off population assistance for countries which fund abortions with their own resources or funds provided by other donors. This was done, among other reasons, to respect the sovereignty of other countries.

-- We do not arrange our funding to avoid the law. Rather, we fund those activities which we believe should be done, consistent with our congressional mandate and administration policies.

Allegation 6. Regulations of A.I.D. to prevent American funding of abortion are mostly symbolic. They have only a minor effect in reducing abortion procedures in the clinics.

Response

-- U.S. funds are not used for abortion or abortion-related activities in Bangladesh or elsewhere. A.I.D. has repeatedly stressed to the Bangladesh Government and cooperating non-governmental organizations the need to comply strictly with United States law and policy regarding abortion. A.I.D. has implemented Administration policy by making ineligible for family planning assistance any foreign nongovernmental organization that performs or actively promotes abortion as a method of family planning with funds derived from any source. A.I.D.'s implementation of the Administration's anti-abortion policy has been challenged by nongovernmental organizations in the United States District Court for the District of Columbia. The Justice Department and A.I.D. have defended this first suit successfully, and will continue to defend vigorously any future challenges. Nongovernmental organizations seeking population assistance from A.I.D. do not believe A.I.D.'s implementation of the Administration's anti-abortion policy is mostly symbolic.

Allegation 7. International donors are not taking adequate measures to ensure that their work is respectful of religious and cultural values in Bangladesh.

Response

-- Our population assistance to Bangladesh originates with a

request from the Bangladesh Government and is developed in close collaboration with Bangladeshis.

-- Independent studies and surveys have consistently shown that the family planning program in Bangladesh provides a needed, valuable service and that family planning users are satisfied with the results. In a recent (1983) national sample survey, nearly half the women interviewed desired no more children, but currently less than 30 percent of these women are using any means of contraception. A more recent study (1985) found that, on average, couples surveyed wanted only 2.6 children, while actual fertility is 5.6 children. Indeed the demand for family planning services considerably exceeds the availability.

Allegation 8. The U.S. provides the major share of financing for population control in Bangladesh. At present it amounts to approximately 50 percent of the $68 million annual cost of the program.

Response

-- In making this assertion, Mr. O'Reilly attributes to the United States substantial amounts that are contributed to Bangladesh by the World Bank and UNFPA. The United States does not make funding decisions for those institutions.

-- The United States bilateral population program in Bangladesh is approximately $30 million a year. Of this, the majority goes to nongovernmental programs and $12 million goes to the program of the Bangladesh government. A.I.D. contributes 20 percent of the total cost of the government program.

-- The $68 million, which includes U.S. contributions to UNFPA and the World Bank as well as our bilateral program, spent on population programs represents less than 3 percent of total expenditures of the Government of Bangladesh. These total Government expenditures for all types of activities are about $2.3 billion annually, with donor disbursements amounting to $1.4 billion annually. The $68 million for population is about 6 percent of the overall development budget of Bangladesh.

Allegation 9. The Bangladesh taka is worth 4 cents -- $1.00 equals 25 takas (Tk. 25). In evaluating the coercive impact of a $7.00 incentive for sterilization, it is necessary to realize that sought-after jobs in the garment factories in Dhaka pay only the equivalent of 4 cents an hour in wages. Therefore, $7.00, which might otherwise seem insignificant, is equal to one month's wages in a nation where unemployment is a severe problem.

Response

-- It is true that people are very poor in Bangladesh and that money is important to them. But because they are so poor, access to safe sterilization procedures would be prohibitively expensive without some form of transportation, support, or

reimbursement for wage loss.

-- A payment of 175 taka is made as reimbursement for the estimated costs of travel, food and lost wages. Of this amount, 90 taka is for lost wages. This amount is based on the average daily wages of unskilled agricultural workers, taking into account seasonal fluctuations (source: Monthly Statistical Bulletin of Bangladesh, May, 1985). The current reimbursement level for lost wages is about $4.00 for men (based on 4 days recovery at about Tk. 25 per day) and $2.50 for women (based on 6 days recovery at Tk. 15 per day). In garment factories in Dhaka, most women are employed as machine operators. They receive 3.6 taka per hour and work 12 hours per day, earning about 43 taka daily. Thus, their lost wages compensation is equivalent to little more than two days of work. Another, and perhaps more representative example, is a rural woman or man hired to carry dirt. Women are paid 15 taka per day and men 25 taka, so their lost wage compensation is about six days for women and four days for men. Recent data compiled by consultant Dr. James Knowles confirm these average wage rates for unskilled agricultural workers.

-- The balance of the payment (85 taka) represents reimbursement for average costs of transportation and food for the client. Studies show these payments reflect true costs quite accurately. At today's prices in Bangladesh, 85 taka would not be sufficient to feed a typical Bangladeshi family for two days.

Additional Comment

Mr. O'Reilly expresses a great deal of concern about unnamed hard line proponents of coercive family planning in Bangladesh increasingly arguing against voluntarism. We are not aware of a constituency which supports harsh measures, and there is no current proposal to adopt coercive measures. To our knowledge, the Government of Bangladesh has consistently supported voluntarism. Within the donor community the comments relative to coercion have usually been limited to expressions of concern that if voluntary services do not become more widely available, Bangladesh society itself may ultimately be driven to support less voluntary approaches.

A.I.D. SUPPORT FOR ENERGY ACTIVITIES

Senator Kasten: In the report which accompanied FY 1986 legislation, there was some very specific language directing you to support energy programs at adequate levels, at least as much as you had. Despite this, your PPC office attempted to basically decimate these programs on the one hand, and on the other, tried to include projects as energy projects which were not, in order to live within the one part of the language in the report which called for $50 million overall.

Why don't you view energy programs as important?

Mr. McPherson: A.I.D. is committed to dealing with the

critical energy problems of developing countries and continues to allocate substantial resources to dealing with these problems. In FY 1986, planned obligations for energy activities total $227, million and in FY 1987, we propose obligations of $187 million. This includes support for a broad range of activities including electric power generation, the development of conventional fuel resources, energy conservation, fuelwood/forestry, other renewable energy activities and assistance in energy planning and policy development. The pattern of support for these programs has shifted in recent years with approximately 75 percent of energy activities in FY 1987 being provided from Economic Support Funds as compared to earlier years when most energy programs were supported with Development Assistance funds. Because of this shift, energy activities are increasingly concentrated in a few countries. In FY 1986, $186 million of our planned obligations are from Economic Support Funds and in FY 1987, this figure is $144 million. Projects to increase local supplies of fuelwood account for more than 60 percent of the Development Assistance program for energy and have always been included as energy activities in our budget presentations.

STATUS OF FY 1986 DEOBLIGATION/REOBLIGATION ACTIONS

Senator Kasten: I am not going to again embarrass you by pointing out your lack of requests for the deob./reob. authority which you have indicated is one of the better tools at your disposal, but rather would like to ask you if you have exhausted the deobligation/reobligation insofar as it is aimed at projects which, for one reason or another, should not continue -- or cannot continue.

I ask this because there are a number of people who are looking at your unliquidated balances, with an eye toward somehow using those funds in the face of shortages required by the overall budgetary situation.

Are you satisfied that you have addressed the projects which might be deobligated?

Mr. McPherson: No. The Agency will continue to perform pipeline and project portfolio reviews and will continue this process right through the end of the fiscal year. One of our major goals in this process is to identify projects which are not performing or which need to be refocussed.

There are many successful ongoing projects which sorely need additional funds as a result of the Agency being considerably underfunded this year. The deobligation/reobligation authority is being used prudently to fund these projects at a level which will sustain their momentum.

I am disturbed about the implication contained in your statement that some people would like us to use our unliquidated balances (pipeline) instead of new budget authority because of budgetary shortages. There are good reasons for most large pipelines, e.g., large annual obligation levels (e.g., Egypt), forward funding as leverage for policy dialogue, multi-year

contracts, commitments to multi-donor programs, and long-term participant training requirements.

Using pipeline in lieu of new budgetary authority would disrupt program plans. Cutting new budgetary authority would mean disrupting implementation of new projects; eliminating funds needed for policy dialogue leverage; interrupting progress of ongoing tranche-funded activities; reducing participant training; hampering development of new projects; sending political signals of reduced U.S. interest; and cutting back on funding for multi-donor projects. In short, we do not believe program pipelines can effectively substitute for new budget authority.

A.I.D. INDEFINITE QUANTITY CONTRACTS

Senator Kasten: How many Indefinite Quantity Contracts does A.I.D. have?

Would you supply for the record, a list of those contracts, together with a listing of the top three officers of the firms you have those contracts with?

Mr. McPherson: A.I.D. has eighty-eight active Indefinite Quantity Contracts with seventy-seven organizations. A listing of those organizations and their top officers follows.

Abeles, Schwartz, Haeckel & Silverblatt
President - Peter Abeles
Executive Vice President - Paul Phillips
Vice-President - Richard Preiss
Vice-President - John Shapiro

Academy for Educational Development
Director of International Division in Washington - Steven Moseley
Academy Vice-President - Dr. Sidney Tickton
Senior Vice-President of Education Division - Dr. Fuad Suleiman

Advanced Technology, Inc.
President - Robert E. La Rose
Vice-President - Ronald H. Hobbs
Treasurer - Girish Jindia
(A joint-contractor with Technical Support Services, Inc.)

American Manufacturers Export Group
President - Edward Ceaser
Vice-President - J. Wesson Tribble
(Only two officers)

American Public Health Association
Executive Director - Dr. William McBeath
Deputy Director - Paul Hall
Association Executive Director - Dr. Susie Kessler

Analysas Corp.
President - Paula Simmons
Vice-President - Ann Snyder
Project Manager - Joe Zillo

Arthur Anderson & Co.
Chief Executive Officer & Managing Partner - Duane Kullberg
Managing Partner, Practice - Victor E. Millar
Managing Partner, Operations - Frank Rossi

Arthur Young & Company
Regional Office Managing Partner - Thomas Fritz
Office Managing Partner - Randy Waterfield
(Only two officers)

Associates in Rural Development, Inc.
President - George Burrill
Business Manager - Richard Hart
(Only two officers)

Automated Datatron, Inc.
President - Charles E. Marks
Vice-President - Thomas Marlatt
Secretary - John M. Yates

Bechtel North American Power Corp.
President - H. W. Wahl
Executive Vice-President - C. W. Fandford
(Firm undergoing reorganization -- only two top officers presently appointed)

Booz-Allen & Hamilton, Inc.
Chairman - R. M. McCullouth
President - John L. Lesher, Jr.
Treasurer - Edward S. Schwallie

Business Promotion Consultants
President - William T. Byrd
Vice-President - Norma Byrd
(Only two officers)

Cate Corp.
President - George M. Cate
Senior Consultant - Carolyn O'Connor
Controller - Mary Levendusky

CH2M Hill
President - Harlan E. Mayer
Chairman of the Board - James W. Poirot
Director of Technology - Sidney F. Lasswell

Chemonics International Consulting Division
President - Tony Teely
Vice-President - Candace Conrad
Treasurer - John Lamb

Community Systems Foundation
President - William D. Drake
Vice-President - David E. Sahn
Comptroller - Naomi Gottlieb

Comprehensive Marketing Systems
President - James M. Griffin
Executive Vice-President - Milton Hatcher
President, International Operations - William Goodson

Coopers & Lybrand
Chairman - Peter R. Scanlon
Deputy Chairman - William J. Holland
Vice-Chairman - Charles F. Jacey, Jr.

Copy Data Systems, Inc.
President - William Curry
Secretary/Treasurer - Gloria Curry
(Only two officers)

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Vice-Chairman - Robert Bruce
Chairman of the Board of Directors - John Clyburn

Deloitte, Haskins & Sells
Chairman of the Board/Chief Executive Officer -
J. Michael Cook
Vice-Chairman - Jerry W. Kolb
Partner - William C. Stevenson

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Vice-President - Elbert H. Barclay, Jr.
Vice-President, Finance & Administration - Benjamin G. Stauss

Development Assistance Corp.
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Vice-President for Energy/Information Systems - Bruce Beddow
Vice-President for Finances - Duane McLiggott

Development Associates, Inc.
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Vice-President - Robert Haupt
Treasurer - Erich Hofmann

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Executive Vice-President - Louis Briganti
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(Only two officers)

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Vice-President - Anthony R. Perron
Vice-President - Collin H. Weir
(A joint-contractor with Management Analysis Center)

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Vice-President & Director of Marketing - Gail Rafter Meneley
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Vice-Chancellor for Academic Affairs - Bernard C. Cohen
Vice-Chancellor for Administration - Lynn Van Ess

WU P'I, Inc.
President - Jacquie L. Kay
(Only one officer)

Total: 77 Contractors

ENERGY FUNDING AND RESEARCH ADVISORY COMMITTEE RECOMMENDATION

Senator Kasten: Last year you pointed out that A.I.D.'s central Energy Office plays a key role in developing and implementing the Agency's energy policy and strategy. Furthermore, A.I.D.'s Research Advisory Committee recently submitted a report to you that agreed with this statement, and recommended maintaining the Energy Office's traditional budget level of $10 million a year. The FY 1987 Congressional Presentation document shows that the allocations for FY 1986 and FY 1987 are approximately half this amount.

Can you explain this budgeting decision in light of your advisory committee's recommendation? Which of the recommended activities are to be dropped by eliminating half of the central program?

Mr. McPherson: The budget level for the central Office of Energy is projected at $6.735 million (which includes $1.435 million of Economic Support Funds for South Pacific Geological/Geophysical Survey) for FY 1986 and $6 million in FY 1987. These figures will be reviewed again after my discussions with the regional bureau Assistant Administrators. Even at these proposed levels, no projects would have been eliminated; however, certain activities might have to be decreased.

ENERGY FUNDING: A.I.D. RESPONSE TO FY 1986 APPROPRIATIONS REPORT

Senator Kasten: The Fiscal Year 1986 Appropriations Report underscored the Committee's strong concern over the downward trend in A.I.D.'s energy funding in Development Assistance accounts.

In your testimony last year you said, and I quote: "In over half of A.I.D.-assisted countries, energy is a critical factor." Yet energy programs in these accounts have been cut 60 percent over the past three or four years.

The Committee said it expected to see increased funding for energy, and set a target for FY 1986 of $50 million.

Could you please tell the subcommittee how A.I.D. has responded to this report language, in terms of both the amounts and content of energy program funding in A.I.D.'s FY 1986 and 1987 budgets?

Mr. McPherson: A.I.D. is committed to dealing with the critical energy problems that the developing countries continue to face in spite of lower world oil prices. Even at reduced levels, we believe that the Agency's energy budget is sufficient to help ensure that energy does not constrain achieving A.I.D.'s targets in income growth, hunger and other areas.

The Agency is taking a number of steps to target its energy budget more carefully to address specific Agency concerns. For example, the Office of Energy has developed activities with the Africa and Asia/Near East Bureaus to address the power needs of irrigation projects. The Energy Office, the regional bureaus and several missions are developing decentralized power systems, usually through the private sector, that can be applied less expensively and more effectively to satisfy agriculture and rural development needs.

In this regard, I believe it important not to limit our focus only to Development Assistance (DA) funds. Energy is an especially important subject in several Economic Support Fund (ESF) countries. Moreover, some two-thirds of our country programs include some ESF funding in FY 1986. Nevertheless, given current budget levels and funding constraints, I do not expect DA energy activities to increase significantly. However, I recognize the importance of the concerns raised and have asked our three regional bureau Assistance Administrators to review with me, this month, the opportunities which exist in our bilateral programs for increased attention to energy. These would occur either within separate energy projects or as components in projects in other sectors such as agriculture, rural development or health. I will advise you of the results of this review.

In addition, because FY 1986 year-end funds may become available through postponement or cancellation of other programs, I have assigned a high priority to allocating such funds to the Office of Energy with the hope that we may be able to provide some additional resources this year.

HOUSINC AND URBAN DEVELOPMENT PROGRAMS

Senator Kasten: On page 15 of Ms. Peden's statement, she says "A.I.D. is not requesting authority to issue new guaranties for FY 1987 and beyond. However, A.I.D. is not abandoning the shelter and urban sector."

On page 14 of that same statement, it says "Within 15 years, more than half of the absolute poor will be concentrated in urban centers. Most of these families live in overcrowded conditions in makeshift squatter settlements or slums. Few have access to clean drinking water or sanitation."

These living conditions are inhumane and, as we all know, the perfect breeding ground for dissention -- and perhaps revolution.

The HIG limitation on guaranteed loans requires no new budget authority. It has been a good program in the past. The HIG program has been an inexpensive way to make a difference in the lives of the poor, and at the same time creates a market for U.S. goods and expertise. Ms. Peden stated the problem in her testimony, and yet claims we are not abandoning the shelter and urban poor.

How can you reconcile these two statements?

Mr. McPherson: In the absence of the Housing Guaranty (HG) program, it is quite likely that the scope of activity addressing shelter and urban poor will have to be reduced. A.I.D. will consider using other resources (Economic Support Fund, development assistance, local currencies generated under the Foreign Assistance Act and P.L. 480), however, to fund these activities within the context of total Agency program priorities. In addition, A.I.D. will continue to provide grant funding for technical assistance and training in support of the capital assistance program. The projected FY 1987 level of funding for this grant element is $6.5 million.

POLISH AGRICULTURAL FOUNDATION

Senator Kasten: Last year both the House and Senate expressed frustration over the lack of progress in implementing the $10 million agriculture project in Poland. Has any progress been made at all on this?

Mr. McPherson: In August 1984, the President announced that the United States would contribute $10 million to support pilot agriculture projects being developed by the Catholic church-affiliated Polish Agricultural Foundation (PAF). The Foundation's Organizing Committee intends to provide resources to private farmers. Since the 1985 appropriation of funds by Congress, the Organizing Committee drafted a charter and has been negotiating details with the Government of Poland (GOP). However, over the past two years, there has been little progress made in obtaining approval and registration of the Foundation by the Polish government.

In June 1986, our embassy in Warsaw cabled that no final decision would be reached on the Foundation until after the Party Congress in July. The embassy noted that discussions between the PAF Organizing Committee and the GOP are continuing, and the Embassy staff believe there is a strong possibility the Foundation will be registered before the end of this fiscal year. In the meantime, A.I.D. completed its review of the Catholic Relief Services (CRS) proposal for administering the funds. A.I.D. is ready to sign with CRS, once the Polish government has approved and registered the PAF.

TRADE AND DEVELOPMENT PROGRAM'S DAIRY PROJECT IN TUNISIA

Senator Kasten: On page 6 of Mr. Holmes' statement, he lists a dairy project in Tunisia, with exports of $1.7 million, with Wisconsin being a benefiting state.

Those funds were obligated in 1980 and 1982. Are those projects now completed?

Mr. McPherson: In FY 1980 and FY 1982, the Trade and Development Program (TDP) financed a feasibility study to promote the sale of dairy cattle and dairy-related products from Wisconsin and other states.

According to the Holstein Friesian Association of America, an organization which possesses considerable expertise on U.S. international competitiveness in the dairy sector, the TDP study has been one of the few successful actions undertaken by the U.S. Government with the U.S. private sector to help the U.S. dairy industry gain a foothold in the Tunisian market.

Specifically, the Association states that the TDP study either accomplished or will help accomplish the following:

1. The project resulted in the sale of 1,000 cattle to Tunisia. About 400 of them came from Wisconsin, reducing the Wisconsin surplus. Another 1,000 head of breeding cattle are expected to be shipped in 1987.

2. Between 1982 and 1984, about $400,000 worth of bull semen was exported from the United States for this project.

3. Genetic improvement of the Tunisian herd will open the market for U.S. feedgrains.

4. The project will also help increase the market for U.S. technical assistance, machinery, cattle, etc.

BUSINESS GENERATED FROM THE UNITED STATES TO CHINA

Senator Kasten: Also, on page 20 of that statement, Mr. Holmes mentioned a $44,000 feasibility study that has been completed in China. Do you expect that study to generate business in the United States (or Wisconsin specifically)?

Are there currently any feasibility studies under way for dairy projects?

Mr. McPherson: The Trade and Development Program's feasibility study of $44,000 was cost shared with a U.S. investor. The investor subsequently decided not to proceed with this project.

TDP continues to look for dairy-related projects; however, there are no dairy-related feasibility studies currently under way. There are, however, two other TDP projects in China that may benefit Wisconsin companies. First, the World Bank is planning to finance the Shanghai Cement Plant for which TDP is funding a study, and Allis-Chalmers is likely to benefit. Secondly, The Huangling Coal Mine, for which TDP funded a study, has been included in China's next five-year plan and Harnischfeger is likely to benefit.

Senator Kasten: On page 14 of Mr. Holmes' statement, he lists 8 projects that may prove to be markets for U.S. exports. I am obviously interested in 3 of those projects: The China News Agency, China Airport, and Peru Cobalt, since Wisconsin companies stand to benefit.

The cobalt feasibility study is 2 years old--shouldn't we know something soon on that project?

The airport study was done in 1985 and the news agency study in 1986. When can we expect decisions on those 2 projects?

Mr. McPherson: The news agency study is under way and we expect the Chinese to begin procuring equipment early next year.

Regarding the Shenzhen Airport, it is not clear whether the Chinese plan to proceed with the construction. Should the Chinese proceed, TDP has been informed by U.S. engineering firms that the Wisconsin firm of Northwestern Motor stands a strong chance to benefit from this study.

Regarding the Peru cobalt project, a potential supplier to this project is the Wisconsin-based firm of Allis-Chalmers. The cobalt project has not yet proceeded because the approving government has not yet been able to locate project financing to follow up on the TDP-financed feasibility study.

UNIVERSITY OF WISCONSIN DISASTER MANAGEMENT EXTENSION COURSES

Senator Kasten: I am gratified that the disaster-related extension courses at the University of Wisconsin are being funded by the Office of Foreign Disaster Assistance (OFDA).

Can you tell us how many participants you project in this program for 1986 and 1987?

Mr. McPherson: The six University of Wisconsin Extension Disaster Management Courses, funded under a grant by OFDA, are scheduled to be available in 1987. However, during 1986, almost

200 students have already taken several of these courses. These students were participating in study programs at the Oxford Polytechnic Institute, the United Nations High Commissioner for Refugees, and the Asian Institute of Technology. The courses will soon be used to train staff of Catholic Relief Services and other specialists involved in disaster assessment. The University of Wisconsin's extension marketing process has advertised the courses. Almost 4,000 inquiries have been received; of these, half are from the developing world. U.S. inquiries include many from the Federal Emergency Management Agency and from state and local governments, as well as 300 to 500 inquiries from the State of Wisconsin alone. As the disaster management courses continue to be advertised, it is expected that these totals will increase.

DISASTER EARLY WARNING SYSTEM

Senator Kasten: Ms. Taft's testimony states that the human toll in the Bangladesh cyclone was lessened by the alert system installed by the National Oceanic Atmospheric Administration (NOAA) and the National Aeronautics and Space Administration (NASA), which was funded by OFDA in 1982.

Can you give us examples of similar early warning systems funded by OFDA?

Mr. McPherson: OFDA has also funded storm warning programs in the Philippines and in Fiji, which has responsibility for cyclone warning throughout the South Pacific. The Fiji system is currently being installed by NOAA and NASA and should be operational this summer.

OFDA has funded U.S. Geological Survey (USGS) implemented volcano monitoring systems in Colombia, Mexico, Guatemala, Costa Rica, Papua New Guinea, the Philippines and Indonesia and has sponsored training and institutional development in volcanology.

In earthquake forecasting (establishing the probability of disaster events occurring at some time in the future), OFDA has sponsored work by the USGS, Carnegie Institution, Cornell University, University of California/Santa Cruz, Lamont-Doherty Geological Observatory and others in regional networks (Andean countries, Circum-Pacific, Southeast Asia and the South Pacific) and in several national programs in Central and South America, the Caribbean and Southeast Asia. These programs combine seismic analysis, earthquake risk determination and vulnerability reduction programs.

OFDA has also funded a prototype, automated tsunami warning system in Chile through NOAA's Pacific Marine Environmental Laboratory.

PRIVATE ENTERPRISE

Senator Kasten: Precisely what does A.I.D. have in mind when it speaks of "privatization" in less developed countries?

It is clear enough here at home, but abroad, are we talking about more U.S. private investment, the effort O.P.I.C. undertakes, or private firms in those countries?

Mr. McPherson: Privatization is defined as the transfer of a function, activity, or organization from the public to the private sector. The term "privatization" is not synonymous with private enterprise. Privatization is an important and unique aspect of our private sector program in that it brings together policy reform, institutional development, and utilization of the private sector.

The successful privatization process, which depends upon the country strategy for privatization and the reasons privatization is being undertaken, involves selection and implementation of an appropriate privatization technique. Privatization can take a range of forms, some of which involve change of ownership status and transfer of decision-making authority from the public to the private sector (complete and partial divestiture) while others entail only the transfer of decision-making authority (contracting out and partial privatization).

While U.S. private investors may certainly be involved in privatization efforts, A.I.D.'s focus is on facilitating divestiture to privately owned businesses in the developing countries. In any case, we encourage that the major share of a privatized firm be locally owned.

PRIVATE ENTERPRISE

Senator Kasten: I note from "Frontlines" that A.I.D. is establishing some sort of goal system -- to "privatization" actions by each Mission.

Is this practical and sensible?

Are there not some countries where this is badly needed, others where the economy is already largely in private hands?

Mr. McPherson: It is true that A.I.D. has established a target of initiating an average of two privatizations per year per country beginning in 1987. It is also true that this is an ambitious undertaking, considering there is no common methodology that can be applied to suit conditions in all developing countries.

The effort, however, is eminently practical and sensible. The dramatic upsurge of interest in privatization in developing countries attests to the recognition of the generally unmanageable social and economic burdens imposed by state-owned firms and regulated industries. Because of this interest, the opportunity to address the issue is now. We do recognize that progress in addressing the problem, in some cases, may be easily attained, while in others a long-term approach must be taken, or privatization efforts may not now be feasible.

Generally speaking, the private sector in the Asia region is more fully developed and, thus, divestiture efforts may be much

simpler and occur more rapidly than in Africa, or other regions. This means the focus in Bangladesh, for example, could be on providing technical assistance for the actual divesting of a service or business, while the focus in some African countries may be on policy dialogue and on creating the necessary business and regulatory climate for divestiture. In either case, privatizations will have been initiated and positive actions toward facilitating self-sustaining, market-based economic growth will have begun.

FUNDING FOR INTERNATIONAL DEVELOPMENT INTERNS AND DEPENDENT EDUCATION

Senator Kasten: There is nothing in your justification material to indicate whether or not you will continue in fiscal year 1987 two initiatives reinstated by Congress in fiscal year 1986 -- that is, the International Development Intern Program, and increased funding for support of dependent education overseas.

What have you done with those programs in fiscal year 1987?

Mr. McPherson: Our requested funding level of $388.9 million for Operating Expenses will enable A.I.D. to continue both of these important initiatives. If our funding request is approved by the Congress, we will have two International Development Intern (IDI) classes in fiscal year 1987, one in the fall and another in the spring. In the case of the dependent education program overseas, we have included $2.5 million in our FY 1987 request, the maximum amount authorized to be contributed to this program by A.I.D.

FOREIGN AFFAIRS ADMINISTRATIVE SUPPORT

Senator Kasten: Largely at the instigation of this subcommittee, you are withdrawing from the Foreign Affairs Administrative Support System which is provided by the Department of State and which this committee has long felt has overcharged A.I.D. and provided poor services to boot.

Are your preliminary indications that you will be able to save money?

Also, what has been the reaction of the Department of State to this initiative?

Mr. McPherson: While our payments to the Department of State for Foreign Affairs Administrative Support (FAAS) will be reduced by $5 million in FY 1987 as directed by this subcommittee, we estimate that payments made directly by our overseas missions to provide such support on their own will increase by about $3 million, for a net savings to A.I.D. of $2 million. However, it is unclear at this time how much of a savings this represents for the U.S. Government as a whole. If the embassies are unable to reduce variable costs to match reduced services to A.I.D. by October 1, 1986, the excess will be paid by State and the other agencies.

Department of State personnel, both here in Washington and at embassies around the world, have been very cooperative in the task of meeting the reduced funding limitation proposed by the subcommittee. When areas for reduction in FAAS participation have been identified, Embassy officials have generally cooperated in the new FAAS agreements and in the new arrangement for the provision of services, where this was necessary.

GRAMM-RUDMAN-HOLLINGS IMPACT ON OPERATING EXPENSES

Senator Kasten: How will Gramm-Rudman-Hollings affect A.I.D.'s operations in headquarters and overseas?

Mr. McPherson: The ultimate impact of Gramm-Rudman-Hollings legislation on A.I.D.'s operations will depend upon how much our FY 1987 request for operating expenses is reduced. A reduction of even 5 percent without, relief such as a continuation of the FY 1986 authority to fund selected local costs from program funds, would seriously impair our operations worldwide. In such a situation, we would have to expand our modified hiring freeze, including terminating the International Development Intern program. Depending on the depth of the funding cut, the Agency might have to initiate a reduction-in-force (RIF). In addition, we would begin action to terminate many of our personal service contracts overseas, the source of much of our administrative support. Finally, we would either terminate or greatly reduce many other activities, such as support for dependent education, purchase/construction of office and residential properties, training for direct-hire staff, procurement and maintenance of office equipment, etc.

OPERATING EXPENSES

Senator Kasten: Last week you provided a report required by the FY 1986 Senate report on reimbursable and non-reimbursable personnel in A.I.D. While the report includes, and I quote, "The existing program has been beneficial to A.I.D. and... current levels of exchanges are not inappropriate," nonetheless, non-reimbursable personnel is at an all-time high -- double what it was in 1983.

How does that square with the report which concludes that current levels of exchanges are not inappropriate?

Mr. McPherson: Figures reported earlier to the Congress did indicate an increase in the number of personnel on non-reimbursable details out of the Agency between the years 1983 and 1986. However, the 1986 figures were for midyear and are expected to decline somewhat as assignments terminate.

These exchanges are beneficial to the Agency because our personnel gain valuable experience while working with the State Department and outside organizations. Many get an opportunity to upgrade their professional backgrounds through educational pursuits on university assignments. The cost of personnel on reimbursable and non-reimbursable details out of the Agency is also, in a net sense, favorable to A.I.D.

A.I.D. likewise benefits a great deal from the professional contributions of individuals on reimbursable and non-reimbursable details to the Agency. The vast majority of these people are academics who bring the latest in technology and thinking to A.I.D.'s operations and projects. So, even though the "non-reimbursable details out" category is temporarily up, the personnel exchange program as a whole is in reasonable balance and appropriate in scope.

Questions Submitted by Senator Hatfield

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

Senator Hatfield: The second replenishment negotiations for IFAD were completed in January, 1986, and funding has already been authorized and appropriated by the Congress. Yet, no budget request has been submitted to the Congress. When will the request be submitted to Congress? What is the reason for the delay in submitting the budget request to Congress?

Mr. McPherson: A request for transfer of the FY 1986 funds appropriated for IFAD and a budget amendment to provide FY 1987 funding for IFAD simultaneously submitted to the Congress on May 14, 1986. Subsequently, the U.S. instrument of contribution for the second replenishment was deposited with IFAD and our letter of credit will soon be amended to reflect the funds appropriated in FY 1986.

IMPROVING WOMEN'S PARTICIPATION IN THE DEVELOPMENT PROCESS

Senator Hatfield: Recent figures from the United Nations Development Program indicate that women grow 80 percent of Africa's food. They are also responsible for foraging for the family's fuel and they offer skills to regenerate local economies. What special effort is A.I.D. pursuing to encourage the participation of women in the development of projects in Africa? What action is the United States taking to direct agricultural research and extension towards the problems experienced by women in producing Africa's food?

Mr. McPherson: A.I.D. recognizes the important role of women, both as contributors to, and beneficiaries of, the development process in Africa. In recognition of this important role, we carry out a number of actions to help ensure greater participation of women, not only in the preparation of development projects, but also in their implementation and evaluation. For example, our country development strategy statements require field missions to undertake an analysis of social and economic factors that influence host countries' development processes, as well as an identification of A.I.D.'s target population. Since women play a central role in the development process and, therefore, usually comprise the majority of the target population, A.I.D. country programs focus on strategies that facilitate women's access to resources that are necessary to improve their performance in the development process.

In project design, A.I.D. requires a social soundness analysis, which specifically calls for an assessment of how a project impacts on women and for measures to ensure that women fully participate in, and benefit from, the proposed project activities. Many of A.I.D.'s field missions have called on specialists on women in development to respond to this requirement. A.I.D. has also increasingly emphasized the need for participation of beneficiaries, especially women, in the development of projects, through interviews during the project design phase. To illustrate the impact of A.I.D.'s efforts to increase women's involvement in our projects during the design stage, the training components of a large number of A.I.D.

projects have set a percentage of training funds to be allocated for the training of women. A.I.D. views the provision of training for women as one of the most effective ways to ensure their increased and long-term participation in the sector targeted by the project. Another example of a deliberate effort to improve women's participation is the increased number of agricultural research projects in sub-Saharan Africa that have been designed to follow the farming systems approach to research and extension. This approach emphasizes the analysis of constraints and objectives of target farmers, followed by technology testing on farmers' fields with farmer participation. Since the majority of the farmers in Africa are women, their involvement in technology development has been substantially improved through their increased participation in farming systems research activities. To ensure their increased involvement, many of A.I.D.'s projects have specified the percentage of women farmers that are to be involved. The focus on developing labor-saving and low-resource technologies is another demonstration of A.I.D.'s increased responsiveness to the technology needs of women farmers, a majority of whom are labor-short and low-resource farmers.

In addition to the above, A.I.D. has commissioned studies and encouraged field missions to improve their data base to identify and address gender-related issues. A.I.D. views greater understanding of these issues by A.I.D. personnel and their host country counterparts as a prerequisite for planning, designing, and evaluating programs and projects that are sensitive to women's constraints, objectives, and development requirements.

Finally, A.I.D. has adopted a policy of promoting the integration of women-directed activities into the Agency's projects, rather than developing separate, and usually small, women-specific projects. We view this policy as a mechanism for ensuring women's integration into the mainstream of A.I.D.'s and the host country's economic development activities.

In response to the second question, as indicated above, A.I.D.'s portfolio of agricultural research and extension projects in sub-Saharan Africa is now heavily oriented toward the farming systems research approach. This approach is an institutional shift that A.I.D. has taken to promote the most direct and effective way of ensuring that technology development and dissemination address problems faced by client farmers, most of whom are women. Another institutional shift taken by A.I.D., which has a major impact on women farmers, is reflected in the recently adopted agricultural research plan. This plan focuses A.I.D.'s research programs in sub-Saharan Africa on basic food crops, which are grown largely by women farmers. A.I.D.'s emphasis on low-resource technology development is another mechanism for addressing the resource constraints of women farmers. Finally, A.I.D. has encouraged host country governments, with some success, to increase the number of female extension agents who are trained in agriculture in order to facilitate access by women farmers to improved technologies.

INTERNATIONAL AGRICULTURAL RESEARCH CENTERS' RESEARCH FOCUS

Senator Hatfield: A number of organizations have brought to my attention a concern that the international agriculture research centers are focusing resources principally on crops for export, rather than on crops produced by the small local farmer. What specific actions and projects are being pursued to address research problems and priorities experienced by the small farmers? Have the centers shifted their research focus at all in light of the recent drought and famine in Africa? Please provide for the subcommittee a breakout of research by these centers by crop over the past three years.

Mr. McPherson: The concern raised regarding the involvement of the International Agricultural Research Centers (IARCs) in research on crops for export has little basis in fact. From their inception, the centers sponsored by the Consultative Group on International Agricultural Research (CGIAR) have targeted their efforts on increasing domestic production of staple food crops. Furthermore, the research of the IARCs has been geared specifically to meet the production needs of smaller and poorer farmers, to benefit them and the poorer rural and urban consumers who purchase the food they produce. Commodities intended primarily for export have been specifically excluded.

There are, however, few major food commodities which are not exported to some degree somewhere in the developing world at some time. Similarly, some technologies designed to benefit small farmers can be adapted to meet the needs of larger farms in those countries and in some developed nations. Thus, some of the technologies may lead to increased exports of certain crops, but the vast majority of the technology is having the intended impact; it is helping small farmers in developing countries to increase production of domestic staple foods and at the same time lowering consumer prices.

The present allocation of CGIAR research among commodities and programs is shown in the attached table. Rice is the major commodity (it is the most important food crop in the developing world). Nearly all production is consumed domestically--less than 5 percent of the world crop is exported. Because the centers emphasize small farmer concerns, most center varieties are not of export quality. Of the other commodities worked on at the centers, only wheat is exported to any degree--and then only by a few developing countries, Argentina being the principal example. It benefited from an extensive use of International Maize and Wheat Improvement Center (CIMMYT) germplasm by its public and private plant breeding sectors, much as did the United States. (About 21 percent of U.S. wheat area in 1984 was planted with varieties having CIMMYT parentage.)

Turning to Africa, the IARCs have made research to develop solutions for the African food production situation an urgent priority. This response has entailed some shift in resource allocation and program emphasis; the overall proportion of research directed toward Africa has grown from 41 percent in 1983 to 44 percent in 1985. In terms of crop research, there has been

an increase in resources devoted to roots and tubers, which are particularly important in Africa. The CGIAR centers are also reviewing ways to improve coordination of activities in Africa to increase the effectiveness of their activities there.

The attached table provides a breakdown of research by crop over the past three years. Present funding emphasizes cereals followed by livestock, roots and tubers, food legumes, farming systems research, genetic resources conservation and food policy. Recent recommendations for future funding changes include increases for roots and tubers (especially sweet potato and true yam) and moderate reductions for rice, followed by wheat and barley.

Attachment

INTERNATIONAL AGRICULTURAL RESEARCH CENTERS[a/]
YEARLY RESEARCH EXPENDITURES BY CATEGORY, 1983-85[b/]

Category	1983	1984	1985
	(millions of dollars)		
Cereals	33.96	35.64	38.78
Corn	4.99	5.85	7.23
Millet	2.08	2.25	2.11
Rice	17.61[c/]	17.78[c/]	19.31[c/]
Sorghum	2.49	2.02	1.68
Wheat and barley	6.79	7.74	8.45
Food Legumes	10.65	11.46	11.24
Beans	4.40	4.55	3.56
Other legumes	5.15	5.65	6.40
Groundnuts	1.10	1.26	1.28
Roots and Tubers	8.88	9.84	12.19
Potatoes	4.53	5.29	5.55
Other roots & tubers	4.35	4.55	6.64
Livestock	12.96	14.56	15.65
Production	9.07	10.30	11.70
Diseases	3.89	4.26	3.95
Natural Resources	11.47	13.41	12.58
Genetic resources	4.21	4.32	3.87
Farming systems	7.26	9.09	8.71
Food Policy	2.87	3.20	4.47
TOTAL	80.79	88.11	94.91

a/ Includes 13 centers and programs sponsored by the Consultative Group on International Agricultural Research (CGIAR); excludes Asian Vegetable Research and Development Center.

b/ Includes both core and special project research. From 1983 thru 1985, core funding represented 81.6% of the total and special project funding represented 18.4%

c/ Includes substantial special project funding, much of it for West Africa Rice Development Association: 1983: $5.21; 1984: $5.47; 1985: $6.55.

Source: CGIAR Secretariat, June 1986

DONOR COORDINATION

Senator Hatfield: The April 4, 1986 report from A.I.D. to the subcommittee highlights the need to pursue coordination with other donors in Africa. The report also highlights the establishment of World Bank-led consultative groups in several African countries. In which countries are these consultative groups located? Is it the view of A.I.D. that the World Bank is in the best position to coordinate donor activities? If yes, why?

Mr. McPherson: In most African countries, donor coordination is especially important because there are so many donors and so many projects in place and because Africa's crisis requires that all available resources be effectively pointed to the priority needs of economic recovery. Although African administrative capacities are already stretched to their limit, it will still fall to them to lead the way in establishing effective coordination mechanisms. Donors must assist this effort, while helping to strengthen African capacity to assume leadership for local coordination in the future.

The World Bank, with its experience, substantial resources, and credibility as a broadly based multilateral development organization, is in a unique position to provide the necessary leadership in aid coordination and structural reform. Other donors also have important roles to play in the process. No one donor is in a position to lead coordination in all sectors and countries. Other donors, especially the United Nations Development Program and key bilateral donors, serve often as leaders of aid coordination in certain countries and certain sectors.

The creation of the International Monetary Fund Structural Adjustment Facility and Bank-Fund agreement to develop comprehensive policy frameworks for eligible countries should further stimulate improved coordination among all donors against a common framework.

The World Bank has taken the lead in redirecting aid in support of policy reforms and priority investment plans in Africa. In recent years, the World Bank has increased its focus on Africa, allocating a larger share of International Development Association funds to the region, developing its widely acclaimed Joint Action Program, and establishing the Special Facility for Africa. In response to the need for donor coordination, the Bank has increased its efforts significantly since 1982, gradually assuming more leadership responsibility in more countries. We welcome this move.

The Bank now leads consultative groups in 15 countries (as compared to 11 in 1982), which serve as increasingly effective fora for identifying key policy issues, harmonizing donor and host country action, and monitoring progress. There are consultative groups in the following countries (those established since 1982 are asterisked):

Ethiopia	Kenya	Mauritius	Somalia	Uganda
Ghana	Madagascar	Nigeria	Sudan*	Zaire
Guinea*	Mauritania*	Senegal*	Tanzania	Zambia

POLICY REFORM AND DONOR COORDINATION

Senator Hatfield: Policy reform was also given prominence by the April 4th report, and it is increasingly cited as critical to improving the economies of the several nations in Africa. Recognition of the need to make policy reforms has emerged from the African nations within the past year at the same time policy reform has received greater prominence in the provision of U.S. assistance. In addition, the IMF and the World Bank have also insisted upon policy reforms in the delivery of assistance. What efforts are being undertaken to ensure that the policy reforms being sought by the various donors are not conflicting? Would policy reform be enhanced if there were one multilateral entity speaking for the donors to encourage these changes? If so, what entity is in the best position to insist on policy changes?

Mr. McPherson: As you know, in Seoul Secretary Baker presented to the membership of the World Bank and the International Monetary Fund (IMF) a new proposal to deal with the economic problems of low-income countries, most of which are in Africa. This Baker II plan calls for close coordination of the World Bank and the IMF in developing medium-term structural adjustment programs. The plan has recently been approved by the Executive Boards of both the Bank and the Fund. We are still working out the mechanisms for coordinating bilateral donor programs and the structural adjustment programs of the two multilateral institutions. We expect that the Bank-Fund agendas of policy reforms to be undertaken will be discussed with the major bilateral donors. This mechanism, together with the consultative group mechanism, should provide an institutional framework for harmonizing policy reform agendas.

Our experience with the African economic policy reform program suggests that there is a major, synergistic role for bilateral donors in policy reform, within an overall framework developed by the World Bank and the IMF. We have found that our programs, which are generally more specific, as well as more narrow, than those of the multilateral institutions, help recipients in implementing key policy reforms. We believe the new institutional structure, established at the initiative of the United States, is the first step to improving coordination of donor approaches to policy reform.

SMALL FARMER PARTICIPATION AND ADOPTION OF NEW TECHNOLOGY

Senator Hatfield: A recent series of memoranda was prepared by the Congressional Research Service at the request of the subcommittee. One of the memoranda discussed the effectiveness of the U.S. assistance with a focus on A.I.D. audit reports on various projects. Recurring themes in those reports are the failure of many agriculture projects and the tendency of African farmers to be resistant to change. However, the memorandum noted that these tendencies can be reduced where projects are carried

out in conjunction with small farmers and the confidence of the farmers is secured. What steps are being pursued in response to those findings? How receptive have farmers been towards the implementation of new farm techniques?

Mr. McPherson: A.I.D. is fully aware that our more successful agricultural projects are generally those with active participation of the small farmer, both in project design and in project implementation. A number of steps have been taken to assure the involvement of African farmers in A.I.D. agricultural projects. For example, a social soundness analysis is required before A.I.D. approves new projects, and project design is based to the extent possible upon socio-economic surveys. Both of these measures examine the role, behavior, and overall situation of small farmers. In recent years, "farming systems research," which emphasizes surveys to identify farmer's constraints and on-farm field trials, has become the predominant form of A.I.D.-funded agricultural research in Africa. In another example related to those countries which are implementing or considering irrigation development projects, A.I.D. is stressing the need for user associations or other forms of continuous involvement of small farmers, to maximize their participation and the chances for successful project implementation. A.I.D. is also planning to increase its involvement with private and voluntary organizations (PVOs), which have a comparative advantage in working directly with small farmers.

Research has shown that farmers do adopt new agricultural technologies when it can be clearly shown that the new technologies are superior from the standpoint of both yield and risk. Farmers are rational decision-makers and will use new technologies when it is demonstrated that they will benefit from them. While there have been some breakthroughs, such new technologies have yet to be widely developed for much of sub-Saharan Africa due to the great variation in agricultural eco-systems, which is why A.I.D. continues to emphasize the importance of agricultural research. Additionally, other prerequisites (such as marketing systems and transport infrastructure) and complementary inputs are necessary for the adoption of the new technology. The adoption of agricultural innovations has proceeded more rapidly for cash crops than it has for food crops, for example, in part because complementary production inputs such as fertilizer and pesticide have been made available and are profitable to use.

INSTITUTION BUILDING AND TRAINING

Senator Hatfield: These same memoranda indicate that many projects fail due to the lack of institution building and training so that project results aren't sustainable. The areas cited where these problems occur include agriculture credit, marketing, research, extension, and irrigation. What specific actions has A.I.D. undertaken in response to the A.I.D. Program Evaluation Report No. 15? How has A.I.D. sought to improve the sustainability of projects in these project areas in Africa?

Mr. McPherson: A.I.D. is constantly concerned with the sustainability of the changes and the activities which we help introduce through our projects. Training is a vital component of this effort and generally our projects contain a major training component as an integral part of the project. We feel strongly enough about the importance and value of this element that our design officers make particular efforts to include well designed training plans to help build local capacity so that activities continue after our project support ends. Our concern, in addition to the quantity and the quality of the training, is also with the retention of these newly qualified people in the job for which they were trained. This concern is in line with the central point of your question. In general, we have found that when the activity remains viable, the trained staff remain with their work.

Much of our efforts in the design and the implementation of projects go into trying to make sure that the activities do not cease with the termination of the project. The findings reported in our Program Evaluation Report No. 15 are but a small part of the things we have learned that help improve the sustainability of projects. The recommendations in Report No. 15 strike at the heart of the matter by again reminding us that a new method must be profitable for the farmer and not just look good to the researchers and the economists. We had believed our project designs were taking this into account but not all of the relevant factors had always been considered; a better job is now being done particularly by incorporating the findings of new socio-economic and/or farming systems research. In addition, a number of other factors must be considered. The general economic condition of a country must be favorable and the emphasis A.I.D. is putting on macro-economic policies in African countries reflects our concern. The host country should be committed to and capable of continuing the efforts. In our negotiations for new agreements, we exercise extreme caution to make sure the activity is one that has enough support within the government to give it a high probability of being continued. We also conduct recurrent cost analyses to help make judgments regarding the host countries' ability to underwrite the activities we support.

With respect to the specific areas mentioned in your question, we are continuing or initiating additional steps which we believe contribute to sustainability. Irrigation projects are planned with water use rate structures which cover the costs of operation and maintenance of the system. If farmers do not find water use to be profitable and cannot cover the costs to continue the operation, then the activity should not be initiated. Similarly, with agricultural credit projects, we are stressing the need for loans which will return the market rate of interest and have reasonable chances of being repaid. To establish a credit system on other than a sound business basis begs for failure. In our marketing projects, the maximum possible involvement is made of the private sector to ensure as much efficiency as is possible. Agricultural research and extension projects provide some special problems. The long time period, before payoffs, occurs from research and extension, and the difficulties of proving the linkage between investment and return make it difficult to secure public expenditures even in countries with histories of proven

positive returns. We know that there are adequate returns in Africa, but there have not been enough success stories to convince many of the African governments to make the size of commitment necessary, especially now that most governments are confronted with severe financial constraints. Where the environment is favorable, we are making the long-term commitment necessary to provide more breakthroughs. Like the farmer who adopts a practice when he is convinced a profit will result, governments will support research when positive returns are evident.

NON-FOOD AFRICAN RELIEF NEEDS

Senator Hatfield: The March 1, 1986 status report of the U.N. Office of Emergency Operations indicates that, after the most recent donor consultation on February 27, 1986, 80 percent of the emergency food relief needs have been covered, while only 15.3 percent of the non-food relief needs have been met. In the latter category, the unmet needs include logistical support, essential drugs and medical supplies, water supply and sanitation, as well as requirements for relief and survival. What actions is A.I.D. taking to meet these unmet needs? Will additional funds be required? If not, why not?

Mr. McPherson: A.I.D. has worked closely with the United Nations Office of Emergency Operations in Africa (UN/OEOA) since it was established in December 1984. We continue to exchange information with the UN/OEOA regularly and I have talked with its Director, Bradford Morse, and his Deputy, Maurice Strong, on numerous occasions. The UN/OEOA has done an effective job of sharing information and coordinating a diverse group of donors, United Nations specialized agencies and recipient nations, ensuring that assistance is coordinated and provided on a timely basis.

A.I.D. makes its own decisions on food and non-food relief. In general, we rely most on our assessment of the situation. The non-food relief needs mentioned in the UN/OEOA document include some vital and emergency needs, and in some cases our missions have recommended that the United States support those activities. The non-food relief needs also include much that is developmental in nature, rather than emergency and relief oriented. As a result, donors have supplied more emergency food than non-food relief assistance against the needs identified by the UN/OEOA reports. This is reflected in the percentage of each request met to date.

In the past three years the United States has supplied over $2.2 billion of food and non-food relief to countries in sub-Saharan Africa. This includes funds provided by the African Famine Relief and Recovery Act of 1985, and funds from other sources. Based on our current estimates of the situation, we believe the United States has provided adequate and sufficient quantities of emergency food and non-food relief to meet the needs. Nevertheless, the situation is under continual review. It is entirely possible that additional emergency food and non-food relief will be needed later this year. If that is the case, we will approve the programs.

HEALTH ASSISTANCE

Senator Hatfield: For the past two fiscal years the Congress and A.I.D. have had differing priorities in the bilateral accounts in the areas of Health and Energy and Selected Development Activities. This statement is based on a comparison of the request and appropriated levels of funds in FY 1985 and FY 1986 in these two accounts. For example, in FY 1985 the request level of Health was $158.1 million and Energy was $226.2 million, but Congress provided $233.2 million and $188 million, respectively. This pattern was repeated in FY 1986 as A.I.D. requested $146.4 million in Health and $210 million in Energy and Selected Activities, while Congress appropriated $192.2 million and $162.6 million, respectively. Once again, A.I.D. is seeking $150.8 million for Health and $179.8 million in Energy for FY 1987. It should be obvious by now that Congress has differing priorities from A.I.D. in these two areas. How would you account for the fact that A.I.D. repeatedly requests lower dollars for Health than Congress is prepared to provide? Given that this pattern has emerged, what efforts is A.I.D. undertaking to develop health projects in the field? Have host governments been receptive to these Congressional initiatives? Have additional personnel been hired in the area of health to solicit projects and to be responsive to Congressional priorities? If so, how many persons have been hired and in what function? If not, why have additional personnel not been hired or shifted from other areas? Please provide a breakdown for FY 1984, FY 1985 and FY 1986 of personnel in the respective bilateral accounts.

Mr. McPherson: Health assistance has been given very high priority by A.I.D. in the last few years. In FY 1985, Congress appropriated $233 million for Health ($75 million over the request). These funds were used to accelerate A.I.D.'s efforts in child survival which are the primary focus of our health assistance. A number of multi-year projects were begun with FY 1985 funds. In FY 1987, we are requesting $175 million for Health and Child Survival. Our health request is based on mission requests for health programs and reflects the fact that we have been able to forward fund a number of projects with additional funds appropriated in FY 1985 and FY 1986. At this level the Health and Child Survival accounts comprise 10.8 percent of the total FY 1987 Functional Development Assistance account request compared to 8.7 percent in the FY 1986 request. In FY 1986, A.I.D. committed $80 million to new health projects worldwide.

Currently, A.I.D. has 91 professional field officers managing health programs in 38 countries. In addition, we make use of contract personnel to supplement our staff in specific technical areas. For example, we have an agreement with the Centers for Disease Control that supplies 22 health experts in Africa, most of them working on immunization programs. Attached is a table showing in which backstops all of the Agency full-time employees with permanent appointments are working.

Overall budget stringencies and other priorities have affected our request for FY 1987. Other A.I.D. programs, for example, food production and family planning, are critical to health and child

survival. We cannot afford to request more health funds at the expense of these other programs, particularly in view of the cuts in the Agriculture account in FY 1986. However, support for priority health projects comes not only from the Development Assistance account, but also from Economic Support Funds (ESF), the Sahel Development account and the Child Survival Fund.

The $179.8 million FY 1987 request for Energy and Selected Development Activities (SDA) includes not only energy, but all SDA activities, from which our most important private sector initiatives, support for private and voluntary organizations and support for human rights are funded. Over forty percent of this account supports private sector activities.

ALL EMPLOYEES
FULL TIME WITH: PERMANENT APPOINTMENTS
OR APPOINTMENTS OF MORE THAN ONE YEAR

	-- AS OF -- 9/30/81		-- AS OF -- 9/30/82		-- AS OF -- 9/30/83		-- AS OF -- 9/30/84		AS OF -- 9/30/85	
	NO. EMPS	% TO TOTAL	NO. EMPS	% TO TOTAL	NO. EMPS	% TO TOTAL	NO. EMPS	% TO TOTAL	NO. EMPS	% TO TOTAL
EXECUTIVE PERSONNEL	143	4.01	227	6.61	202	5.78	204	5.80	206	6.21
PROGRAM ANALYSIS 1/	503	14.12	431	12.56	371	10.61	355	10.10	350	10.56
ADMINISTRATIVE MANAGEMENT	315	8.84	322	9.38	330	9.44	329	9.36	297	8.96
FINANCIAL MANAGEMENT	205	5.75	197	5.74	199	5.69	198	5.63	189	5.70
SECRETARIES & GEN CLERICAL	468	13.13	419	12.21	437	12.50	412	11.72	377	11.37
GENERAL SERVICES	54	1.51	49	1.42	42	1.20	36	1.02	34	1.02
ADMIN SUBPROFESSIONAL	295	8.28	274	7.98	292	8.35	286	8.14	264	7.96
AUDIT & INSPECTION	118	3.31	110	3.20	113	3.23	133	3.78	125	3.77
GENERAL DEVELOPMENT 2/	184	5.16	1	0.02					-184	
AGRICULTURE	232	6.51	246	7.17	253	7.24	245	6.97	241	7.27
ECONOMIST 1/					74	2.11	90	2.56	84	2.53
PROGRAM MANAGEMENT 2/			147	4.28	131	3.74	122	3.47	122	3.68
RURAL DEVELOPMENT 2/					46	1.31	38	1.08	34	1.02
FOOD FOR PEACE	24	0.67	30	0.87	33	0.94	38	1.08	40	1.20
HOUSING, URBAN & COMUNTY DEV 3/	83	2.33	76	2.21	38	1.08	37	1.05	38	1.14
BUSINESS, INDUSTRY & PRI SEC 3/					49	1.40	64	1.82	63	1.90
ENGINEERING	103	2.89	85	2.47	76	2.17	78	2.22	73	2.20
EQUIP OPNS & MAINTENANCE	9	0.25	9	0.26						
ENERGY & NATURAL RESOURCES									10	0.30
HEALTH, MEDICAL & POPULATION	131	3.67	151	4.40	146	4.17	144	4.09	129	3.89
EDUCATION	82	2.30	109	3.17	109	3.11	106	3.01	87	2.62
PUBLIC ADMINISTRATION	3	0.08	3	0.08	2	0.05	1	0.02		
SOCIAL SERVICE			10	0.29	13	0.37	13	0.37	13	0.39
PHYS & SOCIAL SCIENCE	1	0.02	16	0.46	46	1.31	48	1.36	36	1.08
COMMUNITY & SOCIAL DEV.	54	1.51	23	0.67						
LEGAL	54	1.51	53	1.54	54	1.54	55	1.56	59	1.78
PARTICIPANT TRAINING	27	0.75	12	0.34						
PROCUREMENT & PROP DISP					68	1.94	61	1.73	61	1.84
CONTRACT MANAGEMENT	137	3.84	136	3.96	74	2.11	78	2.22	76	2.29
CAPITAL PROJECTS/DEV. LOANS	191	5.36	201	5.86	203	5.80	214	6.09	213	6.42
INTERNATIONAL DEV. INTERNS	125	3.50	74	2.15	80	2.28	116	3.30	81	2.44
PRINTERS/DRIVERS	22	0.61	19	0.55	13	0.37	12	0.34	12	0.36
					FINAL TOTALS					
	3563	100.02	3430	99.99	3494	99.99	3513	99.99	3314	99.99

IN 1983 ECONOMIST POSITIONS WERE SPLIT OUT OF BS 02 - PROGRAM ANALYSIS INTO THE NEW BS 11 - ECONOMISTS.
IN 1982 POSITIONS IN BS 09 - GENERAL DEVELOPMENT - WERE SPLIT AMONG TWO NEW BACKSTOPS, BS 12 - PROGRAM MANAGEMENT AND BS 14 - RURAL DEVELOPMENT.
IN 1983 SOME POSITIONS IN BS 20 - HOUSING, URBAN AND COMMUNITY DEVELOPMENT WERE REMOVED AND FORMED A NEW BS 21 - BUSINESS, INDUSTRY AND PRIVATE SECTOR.

IMMUNIZATION OF WORLD'S CHILDREN: A.I.D. ACTIONS AND FUNDING

Senator Hatfield: As you know, the U.N. recently announced an effort to immunize the world's children by 1991. What specific actions is A.I.D. undertaking in response to that initiative? Would additional funds be required to meet the needs created by that effort? If not, would funding of additional efforts in this area require a shifting of funds within the Health account? If so, from where would funds be shifted?

Mr. McPherson: A.I.D. is committed to collaborating in an international effort to develop the sustained capacity to immunize the world's children. Specific features of A.I.D.'s immunization strategy include: (1) concentration on 22 emphasis countries which account for two-thirds of all infant deaths in the developing world; (2) emphasis on high impact vaccines, specifically measles and polio for children and tetanus toxoid for fertile-age women; (3) a primary target group of children under the age of one; and (4) emphasis on the development of institutional capacity within the host country to sustain immunization services.

In FY 1985, A.I.D. had immunization programs in more than 25 countries and spent more than $30 million on immunization service delivery. In FY 1986, A.I.D. plans to spend more than $50 million on immunization service delivery and an additional $12-$15 million on immunization-related research. Specifically, A.I.D. will expand immunization efforts in Africa; support a multi-donor accelerated immunization and polio eradication program in Latin and Central America; start major immunization programs in India, Egypt, Morocco and Guatemala; and continue and expand immunization activities in Ecuador, Indonesia, and a number of other countries.

Estimating the cost of immunizing the world's children is a difficult task. It has been suggested that an additional $313 million -- that is, $313 million above the funds currently being spent for immunization programs -- would be needed yearly to immunize 80 percent of the world's children against childhood diseases and to reach all pregnant women with tetanus toxoid vaccine. A substantial portion of those additional funds would be expected to come from the developing countries themselves.

As for shifts within A.I.D.'s own health portfolio, over half of our health programs are specifically focused on child survival activities, with oral rehydration therapy and immunizations the "twin engines" of our child survival strategy. We are placing less emphasis on general health sector system support, on hospital and other curative services, and on other health measures where the impact on infant and child mortality reduction is less direct, not significant or has not been established.

Questions Submitted by Senator D'Amato

ASSISTANCE FOR HAITI

Senator D'Amato: The Administration has expressed interest in providing additional aid to the Philippines to help stabilize a fragile economy and political situation. The nation of Haiti is experiencing similar, if not more difficult, problems. What is the Administration and A.I.D. going to do to help Haiti with their economic problems?

Mr. McPherson: A.I.D. has already provided Haiti with about $10 million in emergency food assistance and specialized technical assistance. Also, we intend to provide $20 million of additional ESF for balance-of-payments support in this fiscal year. This response to Haiti's emergency situation is in addition to A.I.D.'s ongoing development assistance program, which has long-term objectives vital to Haiti's future and has a total FY 1986 budget of about $50 million.

A.I.D.'S ECONOMIC ASSISTANCE TO GRENADA

Senator D'Amato: What progress has been made by A.I.D.'s economic assistance to Grenada? What long-range A.I.D. programs are in operation, or will be offered, to assist Grenada with their chronic economic problems?

Mr. McPherson: Since October 1983, some $80 million in U.S. assistance has been provided to Grenada (of which an estimated $65 million will be disbursed by the end of FY 1986). The principal elements include: (1) three A.I.D. Economic Support Fund (ESF) grants totaling $17 million, which have been instrumental in restoring economic stability and facilitating fiscal and other policy reforms; (2) a $19 million grant to complete construction at Point Salines Airport; (3) repair and construction of much of the country's road network and other physical infrastructure to create employment and stimulate a long-term flow of private investment; (4) development of a primary and preventive health care system including a new psychiatric hospital; (5) a program to revitalize the agricultural sector through technical assistance, land privatization planning and marketing; (6) assistance to the private sector through investment promotion and technical and capital assistance; (7) education sector assistance including emergency school repairs throughout the island and scholarships in the United States for Grenadians; and (8) community self help projects throughout the country.

Progress has been substantial in terms of both policy improvements and economic development. In March 1986, for example, comprehensive tax legislation was enacted by the Grenadian Parliament, a product of many months of analysis by A.I.D. financed advisors. The new law broadens the tax base and abolishes personal and business income taxes which have been replaced with a 20 percent value added tax. The new package promotes economic growth and employment by increasing incentives for saving, investment and hard work. In addition to tax reform, our ESF program and associated policy dialogue have resulted in privatization of eight state owned enterprises, liberalization of import restrictions and removal of domestic price, export and

foreign exchange controls. State-owned agricultural lands have been returned to private hands under a new model farms program.

These policy reforms and improved infrastructure now appear to have significantly increased investor interest. By the end of 1985, total foreign investment in Grenada amounted to about $11.5 million. Investment is expected to accelerate in 1986 with a number of new hotel and manufacturing ventures now in various stages of planning and initiation.

A.I.D. currently plans to provide Grenada with an estimated $17 million in FY 1986 and up to $22 million (including $5.0 million for infrastructure) in FY 1987 although these levels could be reduced by Gramm-Rudman or other Congressionally mandated budget cuts. For the long term, we are urging Grenada to continue economic reforms in collaboration with the new Caribbean Structural Adjustment Facility which is being supported by the World Bank, the IMF, A.I.D., and other donors.

Questions Submitted by Senator Specter

A.I.D. POLICY REFORM PROGRAMS

Senator Specter: To which countries in Africa has A.I.D. given economic policy reform funds and which countries have adopted policy reforms as a consequence of A.I.D.'s work?

Mr. McPherson: A.I.D. has policy reform programs of one form or another in twenty African countries. Our Africa Economic Policy Reform Program (AEPRP) funded five separate programs in FY 1985. In Zambia, the Government has allowed private sector competition in agricultural marketing and reduced subsidies; in Mauritius, tariffs have been rationalized; in Mali, tax reform has taken place and price controls reduced; in Malawi, fertilizer subsidies have been reduced; and in Rwanda, policies are being changed so as to provide equal incentive structures to small and medium businesses as to large businesses.

In addition to the AEPRP, we have policy reform programs funded with our regular Economic Support Funds (ESF). For example, in Kenya we have supported privatization of fertilizer distribution; in Senegal we supported privatization of rice imports and the liberalization of domestic agricultural marketing; in Somalia we supported the liberalization of agricultural markets, as well as the movement toward a realistic exchange rate; in Niger our program combines ESF and Development Assistance resources and has led to the reduction of input subsidies, the liberalization of agricultural marketing and the promotion of livestock exports.

Finally, we have also used P.L. 480 to support programs of market liberalization and parastatal reform in Gambia, Mauritania, Mali, Senegal, and Somalia.

In FY 1987, we are planning new reform programs in Guinea, Senegal, Togo, Zaire, and Madagascar, as well as a major and continuing effort to help Liberia get its fiscal house in order.

THE ROLE OF BLACK INSTITUTIONS

Senator Specter: What is the role of black institutions and private voluntary organizations (PVOs) in African project development and what is the result of the 10 percent minority set-aside as it relates to A.I.D.?

Mr. McPherson: Historically black colleges and universities (HBCUs) have been a source for A.I.D. of individual faculty members having expertise in such disciplines as economics, agricultural economics, rural sociology, soils science, education and human resources development and health services for many years. These individuals have participated on many A.I.D. project feasibility and design teams under a wide assortment of contractual and grant mechanisms. The contributions of these individuals have led to the development of A.I.D. projects in African countries where we are active. HBCUs have also contributed to the development of project activities in Africa through their work under various A.I.D. grant mechanisms established to assist in developing and strengthening the capacity

of selected HBCUs to work overseas in specific technical areas. HBCUs have also trained degree and non-degree participants from African countries which have benefited from A.I.D. programs and projects. Finally, HBCUs are now actively involved in the implementation of many A.I.D.-funded projects in Africa. I am pleased to report that A.I.D. awarded more than $10.1 million to HBCUs in FY 1985. Of this total, nearly $6.1 million was awarded by the Africa Bureau.

Minority-controlled private voluntary organizations (MCPVOs) have also participated in the development of projects in African countries. These organizations have, on many occasions, provided valuable information and guidance to our field missions in Africa, particularly in those countries where they are active. This information and guidance has helped selected field missions in Africa in establishing funding priorities and developing project activities. Many of the unsolicited project activities developed and proposed by MCPVOs have received A.I.D. funding. MCPVOs will continue to play important roles in the development and implementation of project activities in Africa. A.I.D. awarded more than $32.5 million to MCPVOs in FY 1985. Of this total, more than $14.7 million was awarded by the Africa Bureau.

With regard to the 10 percent minority set-aside or the Gray amendment, I am happy to report that A.I.D. dramatically increased the dollar volume of contracts, grants, etc. that were awarded to qualifying organizations and individuals. In FY 1985, A.I.D. awarded $93.9 million to these organizations, an increase of more than 90 percent over our FY 1984 total of $49.0 million. Although A.I.D. fell just $11.1 million short of its goal of $105 million, we are adhering to the spirit and intent of the Gray amendment legislation. Despite the FY 1986 budget cuts, we intend to continue to improve our performance in awards made to organizations and individuals covered under the legislation.

U.S.-ISRAEL COOPERATIVE DEVELOPMENT RESEARCH PROGRAM

Senator Specter: In the fiscal year 1986 Foreign Assistance Authorization Act, Congress earmarked $5 million to finance cooperative projects between the United States, Israel and developing countries. In providing these funds, Congress depends on A.I.D. to consult and coordinate with the Government of Israel. Has such consultation and coordination occurred and what are some of the products of this allocation?

Mr. McPherson: A.I.D.'s U.S.-Israel Cooperative Development Research (CDR) Program is in close touch with officials at the Israel Embassy in Washington, in keeping with Congress' request that A.I.D. "coordinate and consult closely with the GOI." Furthermore, I and other A.I.D. officers at both the policy and working level have personally visited Israel to coordinate and consult in the areas of research and training. Israeli officials and scientists make similar visits to A.I.D./Washington. We expect to continue this fruitful periodic consultation.

Congress mandated this program in October 1984. Response from both the Israeli and developing country technical communities has been highly enthusiastic. Already over 500 research pre-proposals have been received and reviewed. Our FY 1985 budget of $2 million permitted funding 14 projects, including five each in Asia (Philippines, Thailand, Sri Lanka) and Africa (Botswana, Ghana, Guinea, Malawi). Our FY 1986 budget of $4.785 million will permit the funding of 34 additional projects. Israeli cooperation with African countries remains of highest priority.

These projects seek to apply Israeli technical expertise to significant less developed countries (LDC) problems. This is accomplished through close research cooperation with LDC scientists and institutions. Scientific areas of particular interest include: arid lands agriculture, plant and animal sciences, biological pest control, engineering and health. Competition for these funds is remarkably keen. By utilizing external scientific peer review, we are assured of supporting only the highest quality, most innovative research and related technical training.

MIDDLE EAST REGIONAL COOPERATION PROGRAM

Senator Specter: Cooperative science and technology projects with Israel and Egypt have helped to foster peace in the Middle East. Last year, I asked about the Cooperative Marine Technology Program, one of the most successful of these projects, which I note is a part of your FY 1987 budget request. Congress, in 1985, once again reaffirmed its commitment to these important ventures. What have been some of the other cooperative projects that have been undertaken and has the government of Egypt been a full-fledged, willing partner to these projects?

Mr. McPherson: There are three other large research projects involving Israeli, Egyptian and U.S. scientists in addition to the Marine Technology Program that you have mentioned. Under the Epidemiology and Control of Vector-borne Disease project, Ain Shams University in Cairo, the Kuvin Center of Hebrew University's Medical School and the U.S. National Institutes of Health have identified a new strain of leishmaniasis and done important work in control of malaria and Rift Valley fever. Two projects are working in agriculture. The Cooperative Arid Lands Research Program (CALAR), which is implemented by the San Diego State University Foundation, involves scientists from Ain Shams University, Ben Gurion University and other agricultural facilities in Israel and Egypt, as well as U.S. scientists, in research on the use and management of saline water for crop production, the development and utilization of fodder plants, and development of arid land plant species as sources of industrial raw materials. The newest project is one undertaken by the U.S. Department of Agriculture, the Egyptian Ministry of Agriculture and Hebrew University in which scientists are studying the intensification of farm production with emphasis on double cropping, water use and dairy production, medicinal uses of desert flora, solar heating of soils for disease, pest and weed control, and evaluation of methods of technology exchange in agriculture. Officials of Egyptian government ministries are involved in all

the regional cooperation projects. The Minister of Agriculture, Dr. Yousef Wali, has been a particularly strong supporter of Regional Cooperation.

Questions Submitted by Senator Inouye

FY 1987 ESF REQUEST LEVEL

Senator Inouye: Mr. McPherson, in your prepared remarks, you say that your budget has been prepared "within the context of the Gramm-Rudman-Hollings legislation and the effort by the Congress and the Administration to address effectively the deficit problems which face this country."

Still, I find that your request includes a 15 percent increase in the request for appropriations for the Economic Support Fund (ESF).

In view of recommendations by the Senate Budget Committee to reduce overall foreign assistance funding by 11 percent, how do you justify your statement and the increase in requested ESF funding?

Mr. McPherson: A.I.D.'s FY 1987 request is a tight, well-scrubbed budget which represents the minimum level necessary to address the foreign policy objectives of the Administration. The request can be characterized as a series of interlocking building blocks which illustrate the depth of our interests.

Support and encouragement of the Middle East peace effort is the cornerstone of the request and the largest single building block. Almost 50 percent of the request is planned for Egypt, Israel, and Jordan.

Security within our hemisphere is of paramount importance to the Administration and to Congress. Approximately 23 percent of the request, or $933 million is programmed for support of our efforts in Central America; assistance to the fledgling democracies in South America; and support of the Caribbean Basin Initiative.

The United States has significant defense-related commitments around the world. ESF plays a vital role in support to our friends and allies who provide base rights and military access and to those countries which represent front-line states. These defense-related commitments total approximately 21 percent of the request, or $858 million: (a) base rights for the southern flank of NATO--$242 million, (b) base rights in the Philippines--$95 million, (c) front-line programs in Afghanistan and Cambodia--$20 million, (d) other military access and front-line states in Asia and the Near East--$314 million, and (e) military access in Africa--$187 million.

The ESF program supports U.S. objectives in South Africa by providing $74 million for activities benefiting disadvantaged South Africans and confrontation states.

The above requirements are not all inclusive, but they serve to illustrate the nature and extent of our ESF requirements. Reductions from the request level will impact negatively on our ability to meet the challenges which we face. In this context, earmarks will reduce the flexibility which is so important in pursuing our foreign policy objectives.

BALANCE-OF-PAYMENTS SUPPORT

Senator Inouye: One of the underlying assumptions of the budget resolution which may come before the Senate next week is that new limits on the eligibility for balance-of-payments support "could yield required savings." What proposals would you make to set new limits on eligibility for balance-of-payments support?

Mr. McPherson: Balance-of-payment support is a crucial element of the ESF assistance package. While the rationale for providing balance-of-payment assistance varies from country to country, our main reasons include political commitments to the maintenance of peace and security in the Middle East; assistance to countries that provide military base rights, refueling stations, and access to key facilities; assistance to preserve economic and political stability in countries which the United States has a major political or strategic interest; promotion of democratic processes and economic reform; and humanitarian considerations.

In most cases, our balance-of-payments assistance is designed to enable countries facing serious macroeconomic difficulties to come to grips with their economic and political problems. Our own national interest as a leader of the free world and as a major participant in international trade and finance makes such assistance necessary. We would be strongly opposed to cutting back or limiting such an important aspect of our foreign assistance package.

FY 1987 REQUEST FOR BALANCE-OF-PAYMENTS SUPPORT

Senator Inouye: Can the Administration fund known requirements for balance of payments support within the requested amount for ESF appropriations? Is it likely that a supplemental appropriation will be required? (Can they fund likely requirements for Egypt and the Philippines?)

Mr. McPherson: The FY 1987 request adequately addresses all balance-of-payment support requirements known at this time, including likely requirements for Egypt and the Philippines. It should be noted, however, that political and economic circumstances can change quickly. In the event that such changes would translate into increased funding requirements, we would notify Congress immediately.

FUNDING LEVELS FOR APPROPRIATE TECHNOLOGY INTERNATIONAL

Senator Inouye: I have an interest in learning more from you about Appropriate Technology International, or ATI.

My recollection is that ATI was created by A.I.D. because it was believed that the development of technologies appropriate to Third World conditions could really make a contribution to development. You have, yourself, identified technology transfer as a primary component of development assistance.

I believe that, ever since ATI was restructured and came under new management, it has demonstrated its worth as an agent of technology transfer. It has, I believe, been favorably evaluated by A.I.D.

Why, then, is A.I.D. proposing such a sharp reduction in funding for ATI this year? (During the course of its Cooperative Agreement with ATI, A.I.D. has cut funding from a level providing $16.5 million over four years to a request for $2 million for FY 1987 only.)

As you know, I was opposed to the creation of ATI some years ago, but, now that it has built up some expertise -- at the expense of the American taxpayer -- I believe it ought to be continued and to be encouraged to continue its work. What are your thoughts?

Mr. McPherson: As you know, FY 1987 is a very tight budget year for A.I.D. The budget for ATI is included in the budget of the Office of Rural and Institutional Development (RD) within the Bureau for Science and Technology, which manages the project for A.I.D. At the time that I initially considered the FY 1987 budget level for ATI, the budget planning figure for ATI and related central activities managed by the RD Office was $12 million. By the time that the President's budget was completed, this budget had been cut to $8,275,000. A proportionate cut in the ATI budget led to the $2,070,000 figure shown in the Congressional Presentation.

I agree that ATI has built up some expertise and has demonstrated its worth as an agent of technology transfer. In addition, ATI's program is now more in line with my focus on the private sector and ATI is having more success in establishing commercially viable small enterprises in rural areas using appropriate technology. However, in my opinion, these factors also indicate that ATI is ready and should be capable of developing sources of funding outside the Science and Technology Bureau core funding. We are currently developing a companion ordering agreement to ATI's Cooperative Agreement which should facilitate ATI's efforts to obtain funding from A.I.D. field missions.

PRIVATIZATION PROGRAM IN COSTA RICA

Senator Inouye: You have cited Costa Rica as an example of A.I.D.'s effort to encourage recipient governments to move away from reliance on parastatals and to give a greater role to the private sector.

Just how is A.I.D. helping the Government of Costa Rica divest itself of the parastatal holding company? Is A.I.D., in effect, purchasing parastatals from the holding company?

How does this support the development of the private sector? How does A.I.D. determine who is to receive assistance and financing in this divestiture scheme? How does A.I.D. guard against conflicts of interest by those who receive financing?

Mr.McPherson: CODESA, the Costa Rican parastatal, is an object lesson in the dangers of state involvement in industrial enterprises. Founded in 1972, it had become by 1980 the full or partial owner of eighteen industries ranging from an aluminum production plant to a sugar processing mill to fishing boats. Sometimes poorly managed, usually heavily leveraged and often uncompetitive, these industries became an increasing financial drain, first on CODESA and then, through CODESA, on the credit resources of the Central Bank. Eventually CODESA reached the point where it was utilizing one-third of Costa Rica's public sector credit, while generating less than 1.5% of gross national product (GNP), and less than .5% of the nation's employment.

The government of Luis Alberto Monge in 1983 curbed CODESA's borrowing from the Central Bank and, with our assistance, began developing a privatization strategy for CODESA. In 1985, the government set forth the legal and regulatory basis for the process and established a National Commission to oversee its implementation. A private independent trust (FINTRA) was established by A.I.D. and the government to purchase industries from CODESA for subsequent resale to private investors. The Trust is an independent entity, organized under Costa Rican law with its own juridical status. A.I.D. has no substantive role in the purchase or sale of the parastatals, and will not be purchasing any parastatals. We are prohibited by policy and law from taking an equity position in an enterprise. The first CODESA enterprise, the aluminum mill ALUNASA, was purchased by FINTRA in December of last year. Operating under a sales contract with FINTRA, First Boston Corporation is now offering ALUNASA for sale on the international market.

President Arias, who took office in early May, has given his full support to continuing the privatization program. A schedule for disposal of the remaining enterprises over the next two years has been agreed upon between ourselves and the Arias cabinet.

The funds being used by FINTRA are local currency allocated for such purposes by the Government of Costa Rica in connection with the ESF-financed balance-of-payment program. These funds are held in the Central Bank and released to FINTRA by mutual agreement between A.I.D. and the government for specific purchases. The only A.I.D. dollar financing to FINTRA has been for the technical assistance to FINTRA being provided by a consortium of U.S. companies (Price Waterhouse, First Boston and International Resources Group).

We see this program as supportive of the private sector in several ways. By lessening the drain on Central Bank credit resources, increased credit can be made available to private enterprise. By offering the enterprises to the private sector, we increase their investment options. Most important, we ensure that the government is no longer a business competitor with some very unfair advantages.

The decision as to which industry will be disposed of, in what order and how is essentially a decision for the government and the National Commission. Some enterprises eventually will be

liquidated, and indeed some are already moribund. Others such as those involved in the transportation sector (a railway and a busline) will be turned over to appropriate government ministries, while the remainder will be sold either directly by the National Commission or through FINTRA. A.I.D. makes no decisions with regard to the purchase or sale of such enterprises by the holding company. FINTRA acts independently. However during the initial period of its operations, the A.I.D. mission has been consulted frequently by Trust management in line with our ongoing dialogue regarding privatization.

The financial arrangements for the involvement of FINTRA allow little room for conflicts of interest. Funds move from the Central Bank to FINTRA which in turn uses those funds to buy the enterprise. In the purchase process, the funds flow directly from FINTRA to the Central Bank which credits the amount received against CODESA's outstanding debt. In this process, although CODESA is the seller, at no point does it actually receive funds. As CODESA's debt to the Central Bank is reduced, the Bank's credit to the public sector is reduced accordingly . In the first transaction -- ALUNASA -- relatively little was actually monetized through this process.

The creation of the Trust as a separate and independent group of prominent Costa Ricans was intended to insulate the A.I.D. Mission and the Government from conflicts of interest or the appearance of such conflicts. The members of the Board of Trustees of FINTRA are all respected members of the Costa Rican community with many years of service in both public and private life. The Agreement of Trust between A.I.D. and FINTRA contains provisions guarding against potential conflicts of interest by individual trustees. Included among these are prohibitions against FINTRA selling enterprises it acquires to any of the trustees, their families, businesses and associates, as well as curbs on disclousure of "insider information."

We are greatly encouraged by these developments, although we recognize that divestiture is a difficult process and some problems are to be expected as that process moves forward.

A.I.D. PERSONNEL

Senator Inouye: I have become increasingly concerned with the reduction of A.I.D. direct-hire personnel. My review of A.I.D. staffing patterns has revealed that, as the total number of A.I.D. employees has declined, the relative percentage of those who are administrative personnel -- those who manage the paper flow and who keep track of budget preparation and expenditures -- has grown.

Is the Agency maintaining the necessary levels of scientific and professional skills among the ranks of its employees?

Mr. McPherson: With a shrinking direct-hire work force, A.I.D. has had to rely increasingly on recipient countries and profit and nonprofit private organizations to do program implementation. Universities and other U.S. Government agencies are also active in providing state-of-the-art scientific and

professional services for program development, implementation and evaluation. Notwithstanding this operational shift, the Agency still maintains in-house scientific and professional expertise that we recognize are needed to credibly oversee these programs.

Senator Inouye: Has A.I.D., as a direct result of personnel reductions, become the captive of outside consultants and advisors who alone possess the knowledge to make judgments on project designs and the viability of A.I.D. undertakings?

Mr. McPherson: Besides having regular scientific and professional positions, many "administrative" positions in A.I.D. are occupied by persons with these same backgrounds. The Agency thus has most of the skills it needs to set policies and make program judgments. Also, our work force planning system uses position vacancies and projected strengths in individual professional specialties to trigger hiring, conversions, training decisions, and promotions. Our operating units are therefore assured of replacements for critical skill areas. Since January 1985, 50% of Foreign Service appointees and 90% of exchange employees possessed scientific or professional backgrounds.

Senator Inouye: Have you explored other ways of attracting these skills to the Agency? For example, have you thought of fellowship programs for scientists or engineers?

Mr. McPherson: While a fellowship-type program might be beneficial at some point, our recent recruiting experiences indicate that A.I.D. is still capable of attracting the types of individuals needed to maintain decision-making integrity. The major questions in this picture for the future are basically the continued availability of budget, properly graded positions, and suitable career incentives.

Questions Submitted by Senator Leahy

ASSISTANCE FOR HEALTH, NUTRITION AND EDUCATION

Senator Leahy: Since 1976, the United States has given $4.5 billion in economic aid to Guatemala, El Salvador, Honduras, Ecuador, Peru, and Bolivia. These are six of the poorest countries in Latin America.

During these same ten years, the total population of these six countries has grown from 41 million to 54 million.

After the past decade of economic assistance from the U.S., are more or less people in these six countries undernourished, illiterate and suffering from inadequate primary health care?

If less, how much of this is due to U.S. economic assistance?

Mr. McPherson: There is good evidence that education and health conditions have improved in all of the countries you mention over the last decade. Our A.I.D. assistance has been a factor in this. Trends in nutrition levels are much more difficult to measure, but we suspect that they may well have deteriorated significantly in some of the countries you mention, largely as a result of overall economic decline. Targeted A.I.D. programs, particularly through P.L. 480 and child survival projects, have ameliorated the impact of the economic decline.

The progress discussed below in health and education is particularly gratifying in the face of the catastrophic economic deterioration many of these countries faced during the last few years. As indicated below, per capita gross domestic product (GDP) fell by 30 percent or more over the 1976-85 period in two of these countries, and it rose in only one. In the most fundamental sense, we were trying to help these countries do more with less.

GDP Per Capita
(constant 1985 dollars)

	1976	1985	Percent Change
Bolivia	$672	$473	-30%
Ecuador	1153	1215	+5%
El Salvador	842	578	-31%
Guatemala	901	840	-7%
Honduras	543	543	0%
Peru	1229	1031	-16%

Health - The health sectors in these countries are facing unparalleled demand for services from growing populations. A.I.D. assistance, including supplemental feeding through P.L. 480 Title II programs, is targeted to the most at-risk groups within the population (children under 5 years and pregnant and lactating women).

The most basic indicator of success of primary health care is commonly measured by the infant mortality rate. On average, infant mortality declined by 20 percent during the 1976-1985 period in the six countries. The impact of A.I.D. in this reduction cannot be

quantified, but we believe we have contributed importantly to it. Country by country data, as reported by the World Bank, are as follows:

INFANT MORTALITY
(per 1,000 live births)

COUNTRY	1976	1985	Percent Change
Bolivia	142.1	125.1	-12%
Ecuador	90.2	54.1	-40%
El Salvador	89.7	50.8	-43%
Guatemala	76.4	66.0	-14%
Honduras	100.0	87.5	-13%
Peru	97.4	92.0	-6%
6-Country Average	99.4	79.6	-20%

I have named five of the six as child survival emphasis countries under A.I.D.'s new child survival strategy, and more than $138 million in Development Assistance health resources have been programmed for health activities in these five countries since 1980. The sixth country, El Salvador, is also a major recipient of A.I.D. health funds.

Current mortality rates in all six countries are still too high, and we are continuing our efforts to bring them down through a variety of activities, including oral rehydration therapy, targeted P.L. 480 feeding programs, and immunization programs.

Nutrition - As indicated earlier, adequate measures of nutritional status over time are not available. Indirect measures, such as food production per capita, however, suggest that average nutrition levels have deteriorated in most of these countries as per capita incomes have fallen. Only sustained economic growth, including increased food production, is likely to solve this problem. However, A.I.D. has sought to ameliorate the most serious malnutrition through targeted feeding programs under P.L. 480 Title II, and to support increased general food availability through P.L. 480 Title I programs. Very fragmentary data suggest that the incidence of the most severe malnutrition may have declined over the period. If so, our programs are likely to have been a significant factor.

Education - Comparable figures for 1976 and 1985 are not available for literacy, since such data is generally available only through decennial censuses. Nevertheless, the 1980 round of census data indicate a substantial drop in the prevalence of illiteracy during the 1970s for those countries for which we have data, and I am confident that the trend has continued. The best tool for promoting literacy over the long run is through universal access to primary education -- a variable for which data does exist. Availability of primary education has increased steadily in the region. For the countries taken together, the percentage of children of primary age (6-11 years) actually enrolled has increased from 67.5 percent of all children in the age group in 1975 to 76.5 percent in 1985. Primary school enrollments have increased substantially in all countries.

School Enrollment by 6-11 year-old Children
(percent of age group)
1975 and 1985

COUNTRY	1975	1985
Bolivia	70%	82%
Ecuador	76%	83%
El Salvador	63%	74%
Guatemala	48%	58%
Honduras	67%	75%
Peru	81%	87%
Average	67.5%	76.5%

Source: United Nations Economic Commission for Latin America

A.I.D. has played a relatively limited direct role in primary education, and the efforts of the individual countries are the primary factor in the improvement. A.I.D.'s role during the last several years has been crucial, however, in preventing tightened budgetary constraints -- due to economic decline -- from crippling such efforts. However, we have played a substantial direct role in the last several years in Honduras, El Salvador and Guatemala, but the results are only beginning to appear.

Our role in Guatemala has been particularly important. As indicated by the table, Guatemala ranks lowest among the six countries, in substantial part due to a large indigenous population for whom Spanish is not the primary language. Over the past two years, we have undertaken a major effort in Guatemala to develop and then to extend bilingual education to the major indigenous groups, in order to eliminate a major stumbling block to their education. Results so far have proven even more positive than we had hoped, and we are anticipating substantial improvement in Guatemalan primary education statistics over the next several years as a result of this innovation.

RURAL DEVELOPMENT PROJECTS

Senator Leahy: What percent of our economic aid to these six countries during this period was used to fund small scale rural development projects which directly benefited the rural poor?

Mr. McPherson: Approximately $178 million in the current agricultural portfolio for these six countries will have direct benefits for the rural poor in the form of irrigation systems, rural roads, rural electrification, farm inputs, credit, strengthened farmer organizations, and secure access to land. This represents approximately 48 percent of our total agricultural portfolio for these countries. Many of these projects are expansions of activities that were implemented on a small scale usually through OPGs with PVOs. For example, in El Salvador the U.S. PVO Technoserve is working with rural cooperatives to replace state management with private professional management and to increase agricultural production. Small-scale rural development projects are an important part of our total economic assistance to these countries. A.I.D. will continue to utilize them to draw

relevant experiences to increase the efficiency and direct impact on the rural poor of our economic assistance programs.

PRIVATE ENTERPRISE

Senator Leahy: For the past few years, you have followed a policy that emphasizes the role of the private sector in development.

Can you point to some specific examples of where you have been most successful in bringing about development of the private sector in the underdeveloped countries?

Have you been more successful in one region as opposed to others, i.e., Latin America versus Africa?

Mr. McPherson: In the past several years, A.I.D. has made important breakthroughs in implementing a policy that has emphasized the role of the private sector in achieving development objectives and growth through market-based systems. It would be unrealistic, of course, to expect immediate, dramatic, visible change in all of these efforts as the problems facing government-controlled economies developed over an extended period of time and may require, in many cases, some time to resolve.

However, successful achievements can be cited. The nature of these achievements is varied. For example, at this time Asia is more private enterprise-oriented, in general, than is Africa. Therefore, the focus in Asia is predominantly directed toward business development or improvement, while in Africa the focus is more directed toward policy dialogue efforts to encourage the development of a regulatory and financial climate conducive to the promotion and growth of business and the private sector.

Several examples of various types of achievements are:

Egypt: After government changes in policy, small farmers -- Egypt's largest group of entrepreneurs -- are now able to obtain private credit and technical assistance because of a service funded by A.I.D. and coordinated by Agriculture Credit Development International through village banks in three governorates. A.I.D. has provided $49 million for the project, the Egyptian government $30 million. The service enables farmers to buy improved seeds, fertilizers and equipment to increase their production and income. Credit is made available by the Principal Bank for Development and Agricultural Credit, depending on a farmer's willingness to use new technologies. The targeted population -- farmers with less than two acres and an income of less than $400 -- was quick to respond. Through mid-1985, the project made 45,781 loans for a total of $43.6 million to 27,540 farmers with a repayment rate of 99 percent. Per capita farm income of the participating farmers is about four times the normal income. Because of this successful policy reform, interest subsidies were eliminated (the project charges 14 percent simple interest), credit was made available to farmers, and production as well as personal income increased dramatically.

Kenya: A.I.D. has helped Kenya increase productivity on its small farms through the Economic Support Fund (ESF) Structural Adjustment program grant (costing an estimated $30 million in FY 1986). ESF is used to support policy changes such as reducing government involvement in the economy and providing required access to agricultural supplies and markets. For example, ESF helped reverse the Kenyan government's policy of limiting fertilizer imports, thereby substantially increasing corn output and reducing food imports.

Cameroon: With A.I.D. funding of $1.6 million, the Cameroon Cooperative Credit Union League offers training in financial management, savings and membership building, and credit administration. As a result, thus far, the number of credit unions increased from 15 to 28, loans were increased from 79 to 340, membership rose to 9,168, savings expanded to about $400,000 and 420 union officers were introduced into the credit union program.

Thailand: With an A.I.D. loan of $2.5 million (one-fourth of the total financing), Thailand Livestock Meat Processing became the first modern private sector company of its kind in Thailand. An estimated 2,000 small-scale suppliers are involved while 300 jobs have been created. In addition, the facility provides pre-program extension services to Thai farmers. Results include the creation of foreign exchange from non-traditional exports to east Asia and the enhancement of the private sector in the meat processing sector in Thailand.

Panama: The National Investment Council of Panama, established with a $3.9 million A.I.D. loan in 1983, is promoting new foreign and domestic investment as a means of creating more jobs and enhancing income growth. So far, it has attracted more than 30 firms from all over the world to invest $32 million in Panama, with a potential of 6,000 new jobs. With a leverage ratio of 10 to 1 so far, the A.I.D. loan has significantly strengthened the private sector in Panama.

PRIVATE ENTERPRISE

Senator Leahy: What have been the major obstacles in your efforts to promote private sector development in the under-developed countries?

Mr. McPherson: The major obstacles or constraints in A.I.D.'s efforts to promote private sector development in developing countries are entrenched negative attitudes by the less developed countries towards private enterprise, regulatory and other policies that inhibit the creation and growth of private enterprise, unavailability of credit for small businesses (in particular, a lack of financial market structures), and the lack of technical expertise related to business development and/or improvement. There also needs to exist an adequate resource base to support increased economic growth, productivity and the capacity to compete globally.

Each of the areas mentioned is being addressed through the provision of advice, assistance, and technical expertise by A.I.D.

to help effect rational change which can lead to increased productivity and economic growth.

PRIVATE ENTERPRISE

Senator Leahy: What is the relationship of A.I.D.'s private sector initiative to your mandate to meet the basic human needs of the millions of people in the world who are living in poverty?

Mr. McPherson: We believe that poverty in the Third World can best be overcome through sustained economic growth. This growth, in turn, is dependent on a healthy private sector. Without a free market, most developing countries will not have the broadly-based economic growth and upward mobility that improves the lives of the poor. Therefore, A.I.D. is seeking the fuller use of market forces to achieve A.I.D.'s basic human needs objectives.

DECLINE IN SUDAN'S AGRICULTURAL PRODUCTION

Senator Leahy: In the past three decades since Sudan gained independence, the United States has given that country $800 million in economic aid. Numerous studies indicate that the Sudanese economy declined during that period, and that food production in Sudan today is less than it was in 1956. Why did this decline occur?

Mr. McPherson: Agricultural production in Sudan has declined over the past 30 years for the following complex, interrelated reasons:

First, a decline in the quality of management of agricultural systems. A largely private sector economy devolved into a largely state-managed parastatal system dictated by politically motivated concerns and considerations out of a misguided but widespread view that the public sector could provide greater incentives for employment and investment. Sudan's agricultural pricing policy and government controls also led to production declines.

Second, political instability in the South, which was a net food exporter prior to the 17-year war, and continued civil unrest.

Third, reduced availability of agricultural inputs and general decline in agricultural support systems such as rail and river transport, fuel and input distribution and produce evacuation systems.

Fourth, general decline in crop production due to deterioration and depletion of soils and soil fertility and the increasing use of fragile soils for expanded production areas.

Fifth, cyclical climatic changes occurring over 15-25 year periods.

Sixth, increased desertification and destruction of vegetative cover by expanded herds of livestock and for mechanized farming.

Senator Leahy: What was the $800 million in U.S. aid used for?

Mr. McPherson: The $815.8 million in economic assistance given to Sudan has supported activities primarily in the agriculture and rural development field and to a lesser extent health, energy and participant training. Projects in agricultural research, policy formulation and planning, as well as activities which address credit, marketing and storage of agricultural produce, are currently being implemented. In the health sector, ongoing projects focus on primary health with an emphasis on preventative and maternal and child health care. Assistance in the energy sector ranges from major rehabilitation of the energy grid through the commodity import program to the identification, testing and distribution of renewable energy technologies.

Senator Leahy: How much of this aid was spent on programs to increase food production for domestic consumption in Sudan?

Mr. McPherson: Over the past three years approximately 80 percent of the development assistance funding has come from the agricultural and rural development budget.

LAND REFORM

Senator Leahy: In recent years A.I.D. has required some recipients of Economic Support Funds (ESF) to undertake economic reforms as a condition to this assistance. A.I.D.'s rationale has been that, without compatible economic reforms, even large amounts of U.S. aid will not bring about economic and political stability and self-sustaining development.

In many of the world's poorest countries, malnutrition and falling rates of food production are the most urgent problems. One reason for this is that most of the land best-suited for growing food is owned by a small number of people who use it to produce cash crops for export.

To what extent has A.I.D. conditioned its economic assistance to these countries on the implementation of land re-distribution measures that will enable the rural poor to feed themselves?

Mr. McPherson: Inadequate nutrition is directly related to inadequate rural incomes. For most rural people in less developed countries (LDCs), income is directly related to access to land. (Whether or not the land is best suited to produce cash crops or food crops, and the effect crop choice will have on nutrition, depend upon a number of economic factors related to the potential income the farmer (and the country) can derive from producing alternative crops. Land distribution, therefore, is a key factor associated with nutritional levels of rural people in LDCs. Land distribution can also affect the efficiency of resource use in agriculture.

A.I.D. helps LDCs to improve markets, institutions, and policies in those countries where land distribution impedes improvements in rural welfare and agricultural development. However, A.I.D. has not conditioned economic assistance on specific measures to redistribute land. Land distribution is normally a highly charged and sensitive political issue. Conditioning U.S.

assistance on implementing land redistribution measures may be seen as unacceptable interference in the internal political affairs of recipient governments. Most observers believe that the single most important factor in successfully implementing policies to increase access to land by rural people is a country's political will to do so. Direct conditioning of U.S. assistance on land distribution policies may weaken, not strengthen, a country's political ability to implement such policies.

A.I.D. policy encourages its missions to engage in policy dialogue with governments whose policies impede favorable land distribution. Specifically, the policy states, "In countries in which distorting host country policies are a significant determinant of inequity in the opportunity to own and use land, A.I.D.'s assistance should be focused primarily on modifying such policies."

A.I.D. EDUCATION PROGRAMS IN HONDURAS

Senator Leahy: Vermont and Honduras are "sister countries." Vermont teachers, farmers, and scientists have been involved in numerous exchange programs that directly benefit the rural poor in Honduras.

What programs has A.I.D. funded during the past two years that were designed to improve education in Honduras, and what programs are planned for the future?

Mr. McPherson: The Vermont Partners has been one of the most active, productive self-help programs in Honduras.

The literacy rate in Honduras is 57 percent, one of the lowest in Central America. A.I.D. has been a major donor in the education and training sectors for the last decade, and is helping the Ministry of Education alleviate this problem. In primary education, A.I.D. is financing construction of rural primary schools, a school maintenance program, and in-service training for rural primary teachers through a successful Rural Primary Education project (522-0167) scheduled for completion in FY 1986. The project, upon completion, will have accomplished: 1) construction of 2,100 and the renovation of 700 classrooms; 2) community-based school maintenance programs in seven of the country's 18 departments; 3) construction and equipping of a national Teacher Training Center; 4) training of 5,000 teachers, 2,000 school directors, 350 superintendents and 18 departmental supervisors; and 5) establishment of a computerized management information system in the Ministry of Education. The project provides access to school for an estimated 13 percent of the primary school students, training for 25 percent of the teachers, 29 percent of the school directors, and 100 percent of the superintendents and departmental supervisors.

Because enrollment is approaching 90 percent, A.I.D. will increasingly support services designed to improve the quality and effectiveness of primary education. A.I.D. will initiate a Primary Education Efficiency project (522-0273) this year for improving the quality of instruction, reducing dropout rates, and lowering unit costs.

In vocational education, A.I.D. is supporting the Advisory Council on Human Development (CADERH), a private sector group that works with vocational training institutions to modernize teaching methods and certification procedures. In higher education, we have provided assistance for development of the National Agricultural University at La Ceiba and for expanding the private University of San Pedro Sula.

A unique education project that is proving very successful is the weekly rural newspaper, El Agricultor. Published by AVANCE, a private voluntary organization, the newspaper reaches the rural population with news about development programs. The newspaper is popular among rural teachers and helps rural people maintain and improve their literacy skills.

Following a National Bipartisan Commission recommendation, A.I.D. initiated the Central American Peace Scholarships project (CAPS) on a region-wide basis. In Honduras, this five-year program will fund about 1,500 long- and short-term students in the United States in the areas of agriculture, small business and export development, health, education, and administration. During 1985, the first year of the program, 39 long-term and 264 short-term participants benefited.

CENTRAL AMERICA REGIONAL PROGRAMS

Senator Leahy: You increased funding for your Regional Office for Central America Programs (ROCAP) from $15 million in FY 1983 to $159 million in FY 1985.

In 1983, before the National Bipartisan Commission on Central America (NBCCA) recommended an expansion of regional assistance programs in Central America, you had decided to end your regional programs because they had not been effective.

What results have you achieved with your increased funding for regional activities over the past two years?

Mr. McPherson: The NBCCA report recommended support for regionalism; and indeed A.I.D. increased funding over previous years. The FY 1985 figure, however, was high because of a large ($50 million) project with Central American Bank for Economic Integration (CABEI). The figure for FY 1985 does not represent the usual ROCAP budget. It was larger, a bubble in the trend. The increased funding for ROCAP's programs has been beneficial to the region in a number of ways:

- The $50 million U.S. contribution to the Central American Bank for Economic Integration (CABEI) is financing infrastructural development necessary for industrial growth and private sector credit for export-oriented production. In association with U.S. Government support, CABEI member countries have paid $38 million in arrearages and provided $40 million in new capital. In addition, five new extra-regional members have declared their intent to join CABEI; one of the European Community countries has voiced its willingness to join and others are considering the possibility; $158 million in a

"club loan" with 34 international banks is expected to be signed in June. Finally, reforms are under way in the bank which will restore a strong financial institution to the region.

- The Latin American Export Bank (BLADEX), with a $21.6 million A.I.D. (ROCAP) loan has provided a total of $170 million in short-term financing for non-traditional exports from Central America to hard currency countries. BLADEX has obtained a matching amount of financing from other sources.

- The combined development impact of ROCAP credit programs with CABEI, BLADEX and the Latin American Agribusiness Development Corporation (LADD) is expected to be about $390 million in foreign exchange generations and 29,000 new jobs over the next five years.

- The Oral Rehydration Therapy (ORT) project of the Institute of Nutrition for Central America and Panama (INCAP) has assisted Central American countries to complete comprehensive action plans for child survival programs leading to reduced child morbidity and mortality.

- The Regional Coffee Rust Control project funded by ROCAP has helped to stop advance of rust which potentially endangered 50 percent of coffee production and could have had a disastrous impact on exports.

- 200 private firms have benefited from energy audits and consultations carried out by the Central American Institute for Industrial Technology (ICAITI).

- Under the Central American Energy Resources project Los Alamos National Laboratories, in cooperation with the lead energy agency in each country, the national electric utilities, ICAITI, Central American Business Administration School (INCAE) and the Central American School of Geology are exploring non-traditional sources of energy.

Senator Leahy: Have these results met your expectations?

Mr. McPherson: Although I am not fully satisfied with the results, I believe our regional programs are making important progress. The success of these programs demonstrates their value to the region, although we are reviewing the organizational structure for administering these programs in view of limited resources.

Senator Leahy: What activities can ROCAP administer that cannot be handled as well by bilateral missions?

Mr. McPherson: Generally, ROCAP has a comparative advantage in the administration of development activities when:

(1) the problem to be addressed transcends national boundaries, and there are regional institutions, supported by Central American governments, with higher levels of expertise to address the problem than national institutions. Examples

include: agricultural pest control, coffee rust, environmental degradation, watershed management, energy conservation, each of which cross political boundaries.

(2) projects complement bilateral programs by channeling assistance through regional institutions which operate in most or all of the Central American countries. Some examples are the Central American Bank for Economic Integration, the Latin American Agribusiness Development Corporation, the Latin American Export Bank, and the Cooperative Housing Foundation.

(3) an important objective is to strengthen the capability of an institution to serve regional needs. Examples include the highly regarded business education programs of INCAE, small farm production research by the Regional Agricultural Center for Training and Research (CATIE), and the Central American Bank for Economic Integration.

Senator Leahy: What percent of your regional program funds are now being managed by A.I.D. in Washington or your bilateral missions, rather than by ROCAP?

Mr. McPherson: A.I.D. in Washington currently manages about 46 percent of our Central American Regional funds, and ROCAP manages about 54 percent.

SAHEL DEVELOPMENT PROGRAM

Senator Leahy: The International Security and Development Cooperation Act of 1985 directs that Sahel government administrative capabilities be enhanced so as "to meet the administrative requirements resulting from donor country projects and activities."

What actions has A.I.D. taken or does it plan to take to implement this requirement?

Mr. McPherson: A.I.D. has taken several steps to reduce the administrative burdens of economic assistance programs for Sahelian governments. These include reducing the number of new projects to one or two per year; scheduling the phase-out of existing projects; concentrating in one or two sectors or areas of a country; and providing more non-project assistance, which meets the countries' macroeconomic needs and is less management intensive than project assistance. We are also increasing funds for training to provide academic, technical and managerial training in fields considered to be in a severe shortage category in the Sahel.

In addition, the Sahel Regional Financial Management Training project provides technical assistance to institutionalize proper financial management procedures within those host government accounting entities which are responsible for disbursement of funds under current A.I.D program activities. The second phase of this project will encourage institutionalization of improved management practices in both public and private sectors, including institutions which have financial and planning oversight for other donor activities.

A.I.D's Economic and Financial Policy Analyses grant to the Gambia perhaps comes closest to fulfilling the intent of the legislation. The project, which started in FY 1985, began training Gambians in the government's Ministry of Finance and Trade in macroeconomic analysis. Its purpose is to assist the government at the highest administrative level in developing an institutional capacity to analyze and undertake development programs.

I would like to note that the above activity resulted from a unique set of circumstances, not the least of which was the long-standing rapport that had been developed between the U.S. contractor and government officials within the Ministries of Plan and Finance.

Senator Leahy: Has A.I.D. considered ways, either unilaterally or through coordination with other donors, to simplify and/or reduce the administrative requirements of donor programs?

McPherson: Frankly, A.I.D. and the World Bank probably pose the greatest burden in view of our demands for thorough project analysis and implementation. We believe, however, that this has served a useful purpose insofar as encouraging host-country participation and ultimate responsibility for their own long-term development. Nevertheless, both A.I.D. and other donors are trying to minimize the burden through greater donor collaboration, especially focusing on reducing recurrent cost and manpower demands as part of the activities we develop. The mechanism that both A.I.D. and donors chiefly look to for coordinating our effort in this regard is the Club du Sahel - CILSS organizational framework.

COMMODITY IMPORT PROGRAM

Senator Leahy: In February 1984, the GAO reported that most A.I.D. missions were unable to account for local currency generated by transactions in the Commodity Import Program (CIP). A.I.D.'s largest CIP is in Egypt; it was $300 million in both fiscal years 1983 and 1984, and $200 million for 1985. In January 1985, the A.I.D. mission in Egypt developed and started to implement a system to improve accountability for local currency generated by the CIP. Effective implementation of this system requires the mission to obtain timely and accurate information on CIP transactions from Egyptian banks.

What has been A.I.D.'s experience in the first year of implementing the new system to account for local currency generated by the CIP in Egypt? Have Egyptian banks submitted timely and accurate information to the mission on CIP transactions?

Mr. McPherson: We have successfully implemented over the past year a new system to account for local currency generated by the CIP. As of December 31, 1985, the downpayment arrearages for the CIP Special Account stood at $11.9 million as opposed to $28.3 million in September 1984; arrearages on principal were at $32.8 million, down from $89.4 million in September 1984. We continue to work on these arrearages and expect in the near future another payment for $9.4 million against the downpayment backlog.

For all new transactions, the system is working well. Egyptian banks are providing timely and accurate information. Neither A.I.D. nor the Ministry for Planning and International Cooperation (MPIC) will approve a financing request from any agency or company which has arrearages. MPIC will not forward a financing request to A.I.D. until the bank designated to participate in the transaction has actually received the downpayment and so notifies MPIC. In sum, we believe we now have the arrearages problem under control.

CONDITIONALITY IN BALANCE OF PAYMENTS ASSISTANCE PROGRAMS

Senator Leahy: Developing countries have increasingly sought relief from their inability to service their high accumulation of external debt by undertaking International Monetary Fund (IMF) programs. In return for concessional loans and technical assistance in managing their economies, the Fund requires countries to adopt austerity measures to bring expenditures in line with revenues. Fund programs are of critical importance because foreign debt generally cannot be rescheduled nor can new commercial loans and trade credits be obtained in the absence of such programs. Based upon the belief that developing-country policies affecting the allocation, mobilization and distribution of economic resources are the most important determinants of growth and development, A.I.D. has also been requiring some recipients of ESF balance-of-payments assistance to undertake economic reforms as a condition to this assistance. The A.I.D. rationale is that, without compatible economic reforms, even large amounts of U.S. foreign aid cannot succeed in promoting economic and political stability and self-sustaining development

How does A.I.D. determine which countries will receive conditioned assistance and which will receive aid without conditions?

Mr. McPherson: In all countries where it has resident staff, the A.I.D. carries on a policy dialogue with the host government. Where ESF balance-of-payments assistance is under consideration, the dialogue normally includes the broad macroeconomic policy issues that are relevant to the country's balance-of-payments performance. Particularly in these cases, A.I.D. staff keeps closely in touch with other bilateral and multilateral donors regarding their policy-based lending programs in support of structural adjustment and sectoral reforms.

Depending upon the size and scope of the multilateral programs directed towards improvement of the balance of payments and of A.I.D.'s balance-of-payments program itself, A.I.D. negotiates specific policy-related conditions or covenants in its ESF balance-of-payments assistance programs. To the extent that A.I.D.'s own analysis indicates that policy changes are essential to improving the situation, A.I.D.'s conditions may be supplementary to IMF or World Bank conditions. For example, they may extend the coverage with respect to specific actions to develop export capacity. In other cases, the A.I.D. conditions may reflect, reinforce or complement those of the World Bank or the IMF. The A.I.D. program, for example, may provide additional resources to the private sector.

A.I.D.'s general practice is to negotiate policy conditions for countries receiving ESF balance-of-payments assistance. However, conditions are not applied in countries where A.I.D. does not have a significant local presence or where the programs are based essentially on U.S. foreign policy and national security objectives. Examples are Israel, Portugal and Turkey.

A.I.D. CONDITIONALITY

Senator Leahy: In which countries has A.I.D. had most success in promoting, through conditioned assistance, economic reforms, and in which countries has it been least successful? What is the explanation for this record? How has A.I.D. responded in countries where it has been least successful in promoting reforms?

Mr. McPherson: As you indicated, A.I.D. has promoted economic reform in several countries. While we have been effective in many instances, much of the credit should go to the governments that have instituted the needed reforms, often at considerable political risk to themselves.

Significant economic reform measures at the macroeconomic level were adopted in Jamaica, the Dominican Republic, El Salvador, Costa Rica, Grenada, Ecuador and Bolivia. A.I.D. strongly encouraged these policy measures. Major reforms undertaken in recent years by most of these countries include exchange rate adjustments accompanied by the dismantling or substantial relaxation of exchange controls, reduction of budget deficits, the elimination or substantial reduction of controls on prices and interest rates, adjustment of utility rates to permit state enterprises to avoid or reduce operating losses, reduction of import restrictions, and in some cases (e.g., Jamaica, Ecuador and Bolivia) tax or tariff reform.

While successes in adopting the necessary economic reforms are probably most dramatic in the Latin American and Caribbean region--particularly in the macroeconomic area--they are not limited to this hemisphere. In a number of African countries, including Niger, Mali and Somalia, substantial increases of agricultural production have been obtained as a result of liberalizing the marketing of agricultural products. This involved getting the state to discontinue the practice of compelling farmers to sell their produce to the government at artificially low prices. In addition, the environment for substantial policy and institutional change appeared sufficiently propitious in a number of African countries to justify A.I.D.'s African Economic Policy Reform Program (AEPRP) to encourage and support structural reform designed to set the basis for sustained economic growth. The basic purpose of this program is to reduce government involvement in the economy, provide incentives to the private sector to stimulate increased economic activity, liberalize agricultural marketing practices and stimulate both private domestic and foreign investment. Countries covered by the program so far are Zambia, Rwanda, Mali, Mauritius and Malawi. While it is too early to judge the success of this program, A.I.D. missions are optimistic with regard to its effectiveness.

In many of the Asian countries where A.I.D. has programs, the emphasis has been on producing a more favorable environment for the development of a particular economic sector rather than promoting changes in the macroeconomic situation. Particular attention is focused on agriculture which plays a key role in low-income, less developed countries such as Pakistan and Bangladesh. Our strategy in Asia is more akin to our sectorally-forward approach to conditionality in Africa than in the Latin American and Caribbean region. Thus, in Bangladesh, A.I.D conditionality included the removal of the government subsidy on fertilizer and permitting the private sector to import it freely. A.I.D. also has promoted changes in banking policy designed to develop a self-sustaining system of rural finance. In Pakistan, reforms agreed to by the government or that have been carried out already include increased privatization and deregulation of production, distribution, and free international trade for edible oils and fertilizer, and increased charges for natural gas, electricity and irrigation water to better reflect costs. In the Philippines, reforms were made to diminish the role of the government in the marketing of key food crops and to eliminate price controls on rice.

A.I.D. has been relatively least successful in bringing about substantial economic change in countries such as Sudan, Liberia and Peru. It should not be inferred that no progress has been made in these countries--only that it is judged to be insufficient and disappointing. The Sudanese government did adjust the exchange rate on several occasions, liberalized agricultural prices and, with the help of A.I.D. and other donors, set up a much improved petroleum purchasing procedure. Still, its budget appears to be out of control, state enterprises are continuing to realize large losses, and the exchange rate, despite adjustments, continues to be set at a level that discourages production for export.

The Liberian government has attempted to reduce budget deficits by limiting increases in salaries and reducing public sector employment, but the government's budget deficit is still too large to permit effective monetary and price stabilization.

Peru was making some progress in adopting macroeconomic policy reforms before the Garcia government was voted into power in the summer of 1985. The new government, which was elected on a nationalist, populist platform, has decided not to negotiate a stand-by arrangement with the International Monetary Fund (IMF) because it believes that the short-term sacrifices a stabilization program would entail are unacceptable to the electorate. It also considers structural reform advice from A.I.D. and the World Bank to be inappropriate for Peru's current socioeconomic problems. Its initial successes in reducing the rate of inflation are likely to be short-lived, as it has opted for a demand-induced, government-led policy of economic recovery. The 1986 deficit of the public sector is expected to increase from 4.2 percent of GDP in 1985 to 10-11 percent in 1986. Unless the government relaxes its fixed exchange rate policy, exports will be further penalized and the balance-of-payments disequilibrium will be aggravated. Although Peru is one of the countries in which A.I.D.'s attempt to promote macroeconomic reforms has not been entirely successful, it should be recognized that A.I.D.'s ability to influence macroeconomic

policy in Peru has been limited because the amount of Economic Support Fund assistance potentially available has been very small relative to the country's needs.

In A.I.D.'s experience, the following interrelated factors appear to be the most important in determining whether governments will or will not adopt and successfully implement essential policy adjustment measures:

1. The quality of political leadership: programs are most likely to succeed in countries where the leadership realizes that there is a significant relationship between economic policies and performance.

2. The host government's prevailing economic ideology: whether the government realizes the importance of providing adequate incentives to the private sector and gives it the trust it needs to prosper, or whether it favors a policy of assigning to the government and state enterprises a major role in the economy.

3. The quality of human resources: the number of competent professionals in the civil service, and whether the country has a significant number of entrepreneurs, managers, professionals and skilled technicians. Note that, in this area, the African countries are generally at a serious disadvantage in comparison with most of the countries in the Latin America and Caribbean and Asia regions.

4. The importance assigned by host governments to fiscal, monetary and exchange rate policy: whether the government manages its budgetary and monetary policy in a reasonably prudent and responsible manner, and avoids an exchange rate policy that penalizes exports and artificially stimulates imports.

5. Is willing to engage in a systematic dialogue with major donor organizations, particularly the World Bank and the IMF, and is receptive to their advice on policies designed to promote economic stability and growth.

In addition to the above factors, circumstances beyond the control of the government often play a role in determining its willingness and ability to adopt and implement needed economic reforms. For example, in the Sudan, the rebellion in the South, deep divisions within the army, a generally unstable political situation and an acute shortage of trained personnel, have all made it extremely difficult for the government to adopt needed reforms.

A.I.D.'s response in countries where it has been less successful in promoting needed adjustment measures takes the following forms:

1. Continuing efforts at persuasion: A.I.D. officials attempt to persuade their counterparts that the corrective measures suggested are in the government's best interest. One useful approach is to suggest joint studies that focus on key policy issues facing the government. While such studies would generally be executed under the direction of a well-known foreign expert or

consulting firm, the host government is encouraged to participate actively by appointing its own qualified professionals to serve on the consultant's staff or, at least, by analyzing and reviewing the study at various stages, particularly at the time of presentation of its findings and recommendations.

2. A.I.D. often attempts to persuade host governments to undertake economic policy reform programs sufficiently comprehensive to achieve the extensive stabilization and structural adjustments their countries need. Where IMF programs or World Bank structural adjustment or other assistance will support policy reforms endorsed by the United States, A.I.D. encourages the participation of these institutions.

3. A.I.D. will generally attempt to condition further non-project assistance on the government's agreement to undertake essential economic reforms. Generally, non-project assistance is tranched. The first tranche may require little more than a government agreement to make certain fundamental changes; however, subsequent tranches may only be made if certain performance criteria are successfully met. Often, each successive tranche will specify the additional performance criteria that must be satisfied before it can be disbursed.

It should be noted that other factors beyond economic considerations such as political and strategic interests play a role in the decision to provide assistance.

CONSISTENCY OF BILATERAL AND MULTILATERAL POLICY CONDITIONS

Senator Leahy: What, if any, specific steps/procedures have been undertaken in the past year to ensure that the U.S. Government's position on the imposition of economic conditions is consistent with its approach to bilateral and multilateral assistance?

Mr. McPherson: Throughout the course of the past year, A.I.D. has emphasized and strengthened its procedures for ensuring consistency of U.S. positions on economic conditionality in both bilateral and multilateral programs. A.I.D. and the multilateral development banks (MDBs) maintain an ongoing dialogue on development problems and possible solutions on a general as well as country-specific basis. The nature, content and format of these exchanges vary according to the country and the character of our respective programs. These continuing discussions and exchanges not only occur in A.I.D.-MDB consultations but also in the framework of the World Bank's Consultative Groups and the United Nations Development Program (UNDP) roundtables, both of which focus on specific countries and involve several donors.

In addition, through its early project notification (EPN) system A.I.D. seeks mission and embassy comments on MDB projects in sectors where A.I.D. is involved, in the early stages of their development. Questions or problems which U.S. staff in the field have raised are then brought to the attention of MDB staff, or management where necessary, through the U.S. Executive Director to the MDB concerned, in order to resolve any differences.

At the final stage of MDB project consideration, A.I.D. also is involved with Treasury, State and other interested agencies in reviewing the project documents and helping determine the position the U.S. Executive Director will take in the Board. This entails our participation in weekly inter-agency review meetings and continuous contacts with counterpart staff in other agencies. In this process, A.I.D. takes particular care to ensure consistency between our bilateral program and MDB project proposals. MDB policy proposals are subject to similar inter-agency review.

A.I.D. also has significant input into broader U.S. Government discussions with the various multilateral institutions concerning the extent and nature of the policy conditionality which they apply. These discussions are often carried out during funding replenishment negotiations. In addition, the United States often coordinates with other donors on broad policy issues in meetings of the Development Assistance Committee (DAC).

ECONOMIC STABILIZATION

Senator Leahy: What explains A.I.D. comparative success in promoting economic stabilization in Costa Rica and the Dominican Republic as opposed to its less successful efforts in Jamaica?

Mr. McPherson: All three countries have taken major steps to stabilize their economies and to undertake structural adjustments that would give them a more diversified export base. All have had considerable success in increasing non-traditional exports. Between 1983 and 1985, exports of manufactures to the United States rose by 63 percent in Costa Rica, 62 percent in the Dominican Republic, and 300 percent in Jamaica (from $19.7 million to $78.7 million). However, the benefits of Jamaica's economic policy reforms have been offset by highly unfavorable conditions in the world market for bauxite and alumina, which still account for the largest share of Jamaica's merchandise export earnings. Foreign exchange earnings from these exports in the fiscal year ending March 1986 were $140 million below their level in the previous fiscal year, a drop of 33 percent. Jamaica's economy is relatively more dependent on imports than those of Costa Rica and the Dominican Republic, and its debt service burden is higher. Merchandise imports exceed 50 percent of GDP, and scheduled debt service is equivalent to 40 percent of GDP and 70 percent of combined merchandise and services exports. Merchandise exports, at 30 percent of GDP, cover only 75 percent of scheduled debt service. Proceeds from tourism, capital inflows, and debt rescheduling, even with relatively flexible exchange rates, will be insufficient to restore balance to Jamaica's external accounts until the impact of a relatively large public sector (40 percent of GDP) on aggregate demand is significantly reduced. In this respect Jamaica's macroeconomic policies have not been as consistent as those of Costa Rica and the Dominican Republic.

BALANCE-OF-PAYMENTS GAPS

Senator Leahy: Since debt rescheduling and access to new loans and trade credits generally depend upon countries undertaking an IMF program, has A.I.D. computed the costs to the United States to

fund balance-of-payments gaps in the absence of IMF programs in, for example, the Caribbean Basin countries?

Mr. McPherson: In cases where A.I.D. provides a substantial proportion of the total balance-of-payments assistance to a country, and where failure to adopt policy reforms would have major effects on a country's ability to obtain other economic assistance and on its overall economic performance, A.I.D. seeks to determine external assistance requirements for achieving targeted economic growth rates, with and without sound economic and financial programs. Such a determination would be made regardless of whether these programs were supported by IMF assistance. We recently made such calculations in connection with Economic Support Fund (ESF) programs in Honduras and El Salvador.

In the case of Honduras, our analysis indicates that in order to maintain an average GDP growth rate of 4.7 percent over the period 1986-90, in the absence of policy adjustments needed to enhance export growth and fiscal discipline, an additional $523 million of compensatory financing would be required beyond the amounts presently programmed. We anticipate, however, that substantial policy adjustments will in fact be implemented by the new government, thereby significantly reducing this amount.

In the case of El Salvador, we calculated that an additional $365 million would be required to offset the negative effects on economic growth of continuing under the 1985 policy structure over the 1986-88 period. But in January 1986 the Government of El Salvador announced a comprehensive stabilization program which inter alia unified the official and parallel exchange rates. Full implementation of this program would substantially reduce the need for additional donor resources during 1986-88 to an estimated $170 million.

BALANCE-OF-PAYMENTS ASSISTANCE

Senator Leahy: When will the United States be able to terminate its balance-of-payments assistance to the Caribbean Basin countries, and upon what premise is such termination based? When and how will these countries be able to service their continually increasing external debt?

Mr. McPherson: We anticipate that significant levels of balance-of-payments assistance for some countries in the region -- though not necessarily for each country -- will be needed for the rest of the decade. The region has suffered a major depression and faces high external debt servicing requirements for a number of years.

While export diversification is under way and is progressing rapidly in many countries of the Caribbean Basin, the region is still heavily dependent on exports of traditional primary products, the medium-term market outlook for which continues to be discouraging in most cases. Foreign private investment is not likely to accelerate rapidly in Central America, and although capital flight has been halted, domestic capital is not going to return in large volumes until political/security conditions in that

troubled area have improved. New commercial bank lending to the Caribbean Basin as a whole is not likely to increase much under present conditions.

Although we expect continued assistance from international financial institutions in support of stabilization programs, structural adjustments, and productive investments in infrastructure, our security interests in the region make it imperative that we continue to provide balance-of-payments assistance until the international economic environment and the domestic political/security environments in the region have improved significantly. Progress is being made here, although it is gradual rather than dramatic. As this progress continues, and countries continue to pursue appropriate stabilization and adjustment measures, their export earnings will recover and they will be better able to arrange an orderly rescheduling of their external debts.

DIVESTURE OF STATE-OWNED ENTERPRISES

Senator Leahy: What steps has A.I.D. taken to promote divestiture of unprofitable, state-owned enterprises in Caribbean Basin countries? What progress has been made in Costa Rica and what are the problems in the Dominican Republic and Jamaica?

Mr. McPherson: A.I.D. has taken a number of steps to promote privatization of unprofitable, state-owned enterprises in Caribbean Basin countries. As part of our policy dialogue with host country officials at all levels and with private sector representatives, our missions discuss the need for privatization of these enterprises. To further help in creating awareness of the importance A.I.D. places on this subject, A.I.D. sponsored a major conference on privatization in February 1986. The conference was attended by representatives from various U.S. Government departments and agencies and high level host country representatives. We also have included conditionality calling for analyzing and carrying out privatization activities and programs in agreements for ESF program assistance in Belize, Costa Rica, Dominican Republic, Honduras, and Jamaica.

We have found that host countries are more willing to undertake privatization when they have good information on which to base their decisions. Identification of enterprises that could be privatized, valuation of assets and the costs and benefits of privatization are often complex matters requiring significant analysis. We have helped to create the analytical base for privatization by financing the services of specialists in diverse fields related to privatization in Belize, Grenada, Honduras, and Jamaica.

Where the analytical base exists, we have provided financial and technical assistance through specific projects designed to support host country privatization efforts. An A.I.D. supported effort is under way in Costa Rica, one is due to begin in Honduras this year, and others are planned to begin in Guatemala next year and in the Dominican Republic in FY 1988.

I am pleased to tell the Committee that I think the Caribbean Basin countries are making progress in privatization. I should like to briefly mention some specific examples of this progress, which A.I.D. assistance and conditionality have helped to make possible. In Belize, the divestiture of lands previously owned by the Banana Control Board (BCB) has been completed, the Board's most important function has been changed from marketing to regulation, and its staff has been reduced from 80 to 14.

In Costa Rica, the host country and A.I.D. have used ESF local currency counterpart to establish a trust mechanism to facilitate the sale or liquidation of enterprises held by the state holding company, CODESA. The trust has bought a major aluminum company (ALUNASA) from CODESA and that entity is now being offered for sale. The newly elected government of Oscar Arias has targeted another nine enterprises to be sold off or liquidated.

In the Dominican Republic, the government has leased large tracts of land previously in sugar production to private investors for export-oriented agricultural production. Most of the state-owned industrial, agricultural, and commercial enterprises are under CORDE, a government-owned holding company which owns 32 firms once owned by dictator Trujillo. The government is concerned about the political impact of returning these companies to private hands. Further progress can be expected when the government adopts a firm policy favoring privatization and develops good data on the finances and profitability of the CORDE companies. To help the government deal with these problems, A.I.D. plans to finance a study of the financial data of the CORDE enterprise. Based on the results, a major project is planned for initiation in FY 1988 to assist the government in privatization of these enterprises.

In Grenada, the government has formally announced a privatization policy, sold off several hotels, and returned possession of agricultural lands to small farmers through long-term leases under its model farms program.

In Guatemala, the recently elected government is analyzing parastatals with an eye toward their possible privatization. A.I.D. is planning an FY 1987 project to assist it in carrying out a privatization strategy.

In Honduras, the government passed a Divestiture Law which allows for the sale of publicly held commercial businesses. The state-owned National Housing Finance Agency has been abolished. The functions and staff of the Honduran Banana Corporation have been significantly reduced. The government recently sold the second largest sawmill in the country to a private sector entrepreneur. A greater private sector role in lumber export marketing has replaced an exclusive public sector function previously carried out by the government's Forestry Development Corporation, COHDEFOR. A major project, through which accelerated progress in privatization is expected over the next three years, is in the final design stage.

In Jamaica, government policy favors privatization. However, the Seaga Administration inherited a large number of unprofitable

companies from the previous regime. Despite the time-consuming and complex nature of the privatization process, I believe that the GOJ has made good progress in carrying out its divestiture policy. To date, 12 firms have been divested, five more are soon to be divested, and analysis and valuation of 30 others are in process. Lease of a major public hospital/ outpatient clinic to a private health care corporation is being studied. The government plans to make 21,000 acres of state-owned agricultural land available for lease on up to 49 year terms. So far, 18,000 acres have been leased, and an irrigation system has been rehabilitated under an A.I.D. financed project to help make 2,000 of them productive.

Despite this progress, there are still many problems that Caribbean Basin countries face in considering privatization of unprofitable, state-owned companies. Short-term concern for not increasing high unemployment levels often overcomes longer-term economic rationality. In some countries, there is a concern that state exploitation of forest and mineral wealth is needed to protect the country's wealth and natural heritage. In others, there is a history of reliance on the state to provide employment that is hard to overcome. Most political leaders are particularly concerned about the political price of divestiture, but the direct and indirect costs of maintaining unprofitable state-owned enterprises are high. We are increasingly building privatization conditions into our agreements for economic support funds.

ECONOMIC POLICY REFORM IN AFRICA AND LATIN AMERICA

Senator Leahy: How does A.I.D. economic conditionality in African countries compare with that in the Western Hemisphere? What has been accomplished in (specific) African countries, and what problems have been encountered? How has A.I.D. responded?

Mr. McPherson: In general, our reform programs in Africa are much more narrow than those in the Western Hemisphere, since we have much more limited resources and tend to play a supporting role to the World Bank and the International Monetary Fund. We have concentrated on problems in the agricultural sector, where we have helped recipient governments to liberalize marketing, reduce subsidies, and raise producer prices. Reforms of this sort have already taken place, with A.I.D.'s help, in Senegal, Mali, Malawi, Somalia, Zambia, Niger, Mauritania, and, to a limited degree, Sudan. Other reform areas have been tariff rationalization (Mauritius), tax reform (Mali), reform of the foreign exchange system (Zambia and Somalia), and small business development (Rwanda).

There are two types of difficulties African governments have faced in implementing these reforms. First, in many cases they are short of the needed technical skills to implement these reform measures. A.I.D. has supplied technical assistance and study teams in countries as diverse as Gambia, Somalia, Kenya, Rwanda, Malawi, Mali, Liberia, Senegal and Zambia. Perhaps more important is the fact that these reforms have real political costs attached to them. They cause economic pain to politically important groups (urban consumers and government workers in particular) which have heretofore been subsidized by the existing policies. Because the

international economic environment is inimical to economic growth (because of debt servicing burdens and low commodity prices), these courageous reforms are likely to have desired impact only in the medium to long term. Thus we have reforms which hurt, but provide no immediate evidence of overall benefit. Donors traditionally support such reforms by increasing resource availabilities, thus keeping overall prices down. But donor flows, and particularly those of A.I.D., are in decline in real terms. Hence these reforms are even more difficult to pull off.

A.I.D. has been concentrating its resources on policy reform implementation, while trying to make them quicker disbursing and more flexible. However, the overall scarcity of assistance resources could subvert these important reform programs in Africa.

RESCHEDULING TO FACILITATE LDC DEBT REPAYMENT

Senator Leahy: During the past 4 years, a large number of developing countries have had increasing difficulties in servicing their foreign debt. The problem has been in the making for more than a decade--countries experienced rising energy costs, contracting export markets and a general decline in export prices relative to import prices, rising real interest rates, and declining economic growth. Until 1982, countries were able to avoid adjusting to the new environment as they had easy access to foreign borrowing which resulted in high accumulations of external debt and debt-servicing obligations. The 1981-83 world recession along with reduced foreign lending by commercial banks exacerbated developing countries' debt problems. Countries have sought relief through International Monetary Fund (IMF) programs, U.S. balance-of-payments support assistance and the rescheduling of foreign debt. The policy reforms undertaken by countries in response to IMF and U.S. program assistance have improved some countries' fiscal and current account deficits, but external debt levels have increased and the debt burden, for example, in Costa, Rica, the Dominican Republic and Jamaica, measured as either foreign debt as a percent of GDP or annual interest and amortization as a percent of exports (debt-service ratio) has worsened between 1980 and 1984. Developing-country growth rates have declined or stagnated, and social and political unrest have increased.

What alternatives are there for developing countries to repeat debt reschedulings?

Mr. McPherson: Reschedulings of both commercial and official debt of developing countries in recent years have served to facilitate the necessary, though often difficult, adjustment process in these countries. We will continue to support appropriate reschedulings where the need exists and the country is prepared to implement the policy reforms necessary to restore and promote sustainable growth.

Reschedulings, by themselves, offer only temporary solutions to the immediate debt problems of a particular nation. Developing countries will clearly need to gain expanded access to commercial financing on a long-term basis as they undertake the macroeconomic

and structural reforms needed to promote growth. We hope to see increased private foreign equity investment play a greater role in providing such financing. Foreign direct investment provides a ready source of financing which does not increase the debt service burden. In addition, it provides a vehicle for the return of flight capital and acts as a stimulus to entrepreneurial dynamism, increased efficiency, and the transfer of technology and managerial skills. We have also encouraged, where appropriate, the conversion of outstanding debt to equity as a means to help reduce debt service and allow the commercial risk to be borne by both creditor and borrower. For the poorest developing countries engaged in serious and comprehensive reform efforts, the second element of the U.S. debt initiative will make available several billion dollars in additional IMF, World Bank and donor financing on concessional terms. This plan, which centers around the IMF Structural Adjustment Facility, has been formally approved by the IMF and World Bank Executive Boards and is now moving toward implementation.

PROTECTIONIST PRESSURES AND LDC DEBT REPAYMENT

Senator Leahy: With increasing trade protectionism being favored among many industrialized countries, how will developing countries earn the foreign exchange to begin resumption of economic growth while continuing to service their foreign debt?

Mr. McPherson: Strong economic performance in the industrial countries is crucial for growth in the developing countries, including growth in both primary and manufactured exports. Since the overall economic situation in the industrial world is improving, I am confident that developing countries will continue to increase their share of developed country markets. An even more significant trend is the growing share of developing country exports going to other developing countries.

This is not to say that protectionist pressures are not a problem worldwide. The trading system is fragile, and protective measures in both developed and developing countries threaten its stability. For this reason, the United States and other governments are intent on launching a new round of trade negotiations to open markets worldwide, strengthen the trading system, and expand the rules of the General Agreement on Tariffs and Trade to cover new areas of international commerce. A successful round of trade negotiations is the best insurance that an open, free, and fair trading system will allow developing countries to earn the foreign exchange they need for sustained economic growth.

A.I.D. STRATEGY AND DEVELOPED COUNTRIES' DEBT SERVICE

Senator Leahy: The A.I.D. strategy for many developing countries is to encourage them to "grow out" of their debt problems by increasing and diversifying their exports--is this realistic? How can countries producing basically the same products for the same markets and facing declining commodity prices hope to "grow out" of their problems?

Mr. McPherson: A.I.D. strategy is primarily concerned with promoting economic development, which process, of course, includes output growth that, among other benefits, facilitates debt servicing. A.I.D.'s growth strategy encourages developing nations' exports, their domestic investment--in capital stock and in people--and foreign investment inflows. A.I.D.'s resource flows and its policy dialogue support expansion in these interrelated areas both directly and through economic reforms that make domestic incentives more developmental, that attract increased private foreign investment and lending, and that will turn capital flight into capital repatriation.

To make debt service payments, a nation must obtain foreign exchange. There are only five ways to obtain foreign exchange for debt servicing: 1) cut imports, 2) receive grants, 3) obtain net foreign investment, 4) acquire new debt, or 5) increase exports. In the abstract, any one of the five could be sufficient. But imports have already been compressed in many developing nations. So in practice, increased exports must, in most cases, be the principal means of providing for increased debt servicing with foreign investment, sometimes including capital repatriation, an important adjunct. Increased exports depend on increased total output, on growth; and increased foreign investment inflows depend on favorable growth prospects. Therefore, both of the recent U.S. debt initiatives concentrate upon improving the investment climate and on other means to promote growth that will support increased exports and debt service. These initiatives are part and parcel of A.I.D.'s development strategy.

If growth can be maintained and if protectionist pressures can be resisted within the nations of the Organization for Economic Cooperation and Development, I believe international trade will continue to provide major support for economic development in countries with sound economic policies. But since markets are growing and the product mix is changing, emphasis upon "same products" and "same markets" would be misleading.

World merchandise trade grows faster than world output, while trade in manufactures grows almost twice as fast as world manufacturing output. As the content and geographic dimensions of trade changed between 1973 and 1984, the developing nations did so well they increased their share of the world's merchandise exports (excluding fuels) from 13 percent to 16.5 percent.

The volume of most tropical exports continues to grow. Some items have even increased their share of world trade. Data from the General Agreement on Tariffs and Trade show that between 1973 and 1983, coffee, tea, cocoa, spices, and alumina grew from 1.9 to 2.5 percent of world trade, while other tropical commodities (fruits, vegetables, edible oil, timber, and copper ore) declined from 9.2 to 5.9 percent of world trade.

Sub-Saharan Africa and most low-income countries did very well during 1960-70. Merchandise exports rose an average 6.2 percent a year in low-income sub-Saharan Africa and an average 5.4 percent a year in all low-income countries. But during 1970-82, merchandise exports rose only 0.3 percent a year in all low-income countries

and fell an average of 0.8 percent a year in low-income sub-Saharan Africa. During 1983, the exports of low-income sub-Saharan Africa fell again. The decade of the 1960s demonstrated the ability of low-income countries to participate in the world's growing markets. Now, many of the domestic economic policies that discouraged exports and private investment in recent years are being reformed. Export expansion and investment growth will be good for all countries; but I recognize that some African countries with especially large debt service obligations will have difficulty achieving growth given even the most favorable assumptions.

In all countries, but especially in the developing countries, manufactures are growing while commodities are declining in relative importance. Between 1965 and 1982, the commodity share of exports fell from 76 to 40 percent for middle-income oil importers and from 90 to 70 percent for low-income countries. These changes show that most developing nations are successfully increasing and diversifying their exports, are participating in the growth of world trade, and are adjusting to changing markets and product mixes. These ongoing adjustments will be facilitated by the resource flows and by the economic policy reforms supported by A.I.D. and by the U.S. debt initiatives.

GENERALITY OF THE U.S. PROGRAM FOR SUSTAINED GROWTH

Senator Leahy: Treasury Secretary Baker's proposals at the Seoul conference were aimed at the large developing countries, such as Brazil and Mexico, which have high accumulations of commercial as opposed to official debt. What is being considered for smaller countries such as Costa Rica and the Dominican Republic which have debt portfolios consisting mainly of official loans?

Mr. McPherson: The U.S. program for sustained growth is not limited to any group of countries. It is intended to benefit the full range of developing countries in obtaining additional commercial bank lending as well as expanded access to financing from the multilateral development banks (MDBs), particularly the World Bank. Under this initiative, the banking community and MDBs have been called upon to provide financing to any developing country experiencing debt-servicing problems that is prepared to adopt and implement the type of comprehensive economic adjustment program outlined by Secretary Baker in Seoul.

The U.S. effort recognizes the range among countries in the portion of debt owed to official creditors: generally low in the debt troubled middle-income countries, generally high in the countries eligible for the International Monetary Fund's Structural Adjustment Facility, and in between for many other countries. For example, some 45 percent of Costa Rican and 60 percent of the Dominican Republic's medium- and long-term debt is from official creditors. The U.S. policy dialogue extends across the entire range.

In the cases of Costa Rica and the Dominican Republic, as well as in a substantial number of other countries where neither private nor public debt is double the other category, the United States and other members of the international community are working closely

with the governments concerned to assist in the implementation of reform programs designed to correct balance-of-payments problems and to promote stable growth and development. When such countries have been faced with severe debt-servicing problems, as the record shows, they have been provided with substantial relief through debt rescheduling, when appropriate, as well as through the provision of new resources. Commercial banks are an integral part of this process. Their decisions on new lending to individual countries will, of course, continue to be based on their assessment of the economic policies and performance of the borrower, and of the borrower's financing needs and ability to repay.

COSTS OF TRAINING DEVELOPING COUNTRY NATIONALS

Senator Leahy: A.I.D. agrees with most designers of economic development programs that improvements in education and training systems are needed at all levels, from elementary schools to universities. A.I.D. goes on to say that the most basic needs in development are systems of schooling for children and adolescents and of skills training for employment.

The training-of-trainers approach is a step toward dealing with basic impediments to increasing agricultural and industrial production, reducing population growth and improving the quality and quantity of services in developing countries. Employing over 100 U.S. contractors/grantees for selecting and training developing countries' nationals, hundreds of thousands of participants have moved through A.I.D.'s training rolls. In 1980, A.I.D. estimated that more than 190,000 people had received training in the United States, or a third country, through the participant training program. But, A.I.D.'s ability to evaluate the overall efficiency and effectiveness of the participant training program continues to be limited.

What are the actual costs of training developing country nationals? That is, how much does A.I.D. pay to contractors and how much do contractors pay to the trainers -- e.g., universities, schools, and other training facilities?

Mr. McPherson: The actual costs of training vary substantially with the type and length of training program needed for each individual. For example, programs range from short-term technical programs or observation tours of a few weeks in duration to undergraduate programs and Master's and PhD degrees. Costs also vary with different institutions. A short-term technical program may cost $4,000 - $5,000; long-term academic programs may cost $15,000 - $20,000 a year.

A.I.D.'s Office of International Training conducted an analysis of costs for 1,563 participants enrolled in 178 colleges and universities in 1985. The findings were that average yearly university costs were as follows:

Tuition and fees.....	$6,055
Maintenance allowances ($635/mo x 12)	7,620
Books, Typing, Equipment.....	1,680
Health and Accident Insurance.....	480
Professional Membership.....	150
Orientation.....	375
Total.....	$16,360

The above figure amounts to $1,363/person-month of training. To this figure must be added administrative charges and optional enhancements to the program. The private sector contractor who handles only academic participants charges an average of $246 per person-month of academic training; the contractor who handles both academic and technical participants charges an average of $335. The total ranges from $19,321 to $20,380.

Virtually all A.I.D. training in the United States is handled by contractors. Payments to contractors depend significantly on the type and length of training and the institutions involved. Some contractors actually do the training, while others are involved only with various aspects of managing the training process, such as placement and monitoring.

We are concerned about these costs and recently the Agency adopted three policies to contain participant training costs: (1) setting a $7,000 per year cap on tuition for undergraduate training; (2) requiring undergraduates to live on campus in student housing and receive a small monthly allowance; and (3) exploring proposals from colleges for cost-saving package arrangements for undergraduate participants.

NUMBER OF U.S.-TRAINED TRAINERS INVOLVED IN TEACHING

Senator Leahy: How many U.S. trained trainers (teachers) are actively involved in teaching/training children/people in developing countries during any particular year (1984, 1985, or 1986, etc.)? (NOTE: In a few instances, a concerned local national at a USAID mission may attempt to maintain data on some returnees.)

Mr. McPherson: Comprehensive employment statistics are not maintained by the A.I.D. mission on participants after they return home to their country. Worldwide statistics, however, indicate that more than 95 percent of all A.I.D. participants do in fact return home. Missions provide a limited number of follow-up activities for these returnees and a microcomputer system has been developed to track returned participants. This system, now being installed worldwide, will enable A.I.D. missions to track returned participants for up to five years in order to conduct impact evaluations.

Within the area of education, relatively smaller numbers of A.I.D. participants have been trained in this field in recent years due to higher priority being given to agriculture, health, management and private sector training. Currently about 800 persons, 6 percent of A.I.D. participants, are receiving U.S.

training in education, with the expectation that these students will return home and go into teaching or administrative positions in the education field.

PARTICIPANTS IN HOST COUNTRY NON-TEACHING POSITIONS

Senator Leahy: How many A.I.D.-sponsored participants fill non-teaching positions in host-country governments -- national and/or local?

Mr. McPherson: Although A.I.D. missions do not maintain comprehensive employment statistics on participants after they return home to their country, our observations are that the large majority of A.I.D. participants return to their countries and resume working in government positions, research institutions or universities. We continue to give importance to training of government officials but we are increasingly selecting, for U.S. training, individuals from the indigenous private sector who will return home to private sector jobs.

MEETING EDUCATION/TRAINING NEEDS IN DEVELOPING COUNTRIES

Senator Leahy: Have any determinations been made as to when the developing countries - particularly those in Africa - will be able to fund programs for meeting their continuing needs for education/training in both the public and private sectors? What were the conclusions? What evidence shows that A.I.D. programs have expedited the recipient countries' prospects of having the ability to cope with their own educational and training needs?

Mr. McPherson: Because some developing countries have made much more progress than others, no overall determination can be made as to when the developing countries - particularly those in Africa - will be able to fund programs for meeting their continuing needs for education training in both the public and private sectors.

Some measures of progress are available. Enrollment at all levels in developing countries increased steadily during the 1970s. The share of GNP devoted to education at all levels has grown in almost all countries, to an average of almost one-fifth of national budgets. However, demand for education at all levels still exceeds the places available. The increasing requirements for higher education and specialized technical training are competing with the resources needed to raise general education levels.

Approximately half the countries of Africa and most countries in other regions are expected to accomplish their quantitative objectives for primary and secondary education within the next decade. Increasingly, qualitative and managerial improvements are the priority needs. The countries least likely to accomplish either their quantitative or their qualitative objectives over the next decade are the least developed countries such as those of the Sahel region of Africa.

There are many more aspiring students than there are places. New graduates are hired more readily than persons with lower

educational qualifications. Development or expansion of university-level and other post-secondary training capacities will lag behind demand for the foreseeable future.

A number of evaluation studies have revealed how A.I.D.'s programs have helped recipient countries to develop their ability to cope with their own educational and training needs. For example, an impact study of A.I.D.'s education assistance to Nepal showed that primary enrollment increased from one percent of the age group in 1954 to 59 percent in 1975. A 1986 review of A.I.D.'s education policies and program has endorsed that study's conclusion that A.I.D. can have significant impact on a country's educational system if it consistently offers adequate support over a sufficient period of time.

Meanwhile, developing countries in general are making substantial progress in expanding their systems of education and training. Increased enrollment targets set in the early sixties have been met or exceeded. In spite of that, however, more than 120 million children of school age remain to be served by the education system in Africa.

For Africa to achieve its educational objectives, major changes in finance and administrative practices will be needed. In countries where such change has taken place, substantial transformation and expansion of their educational systems have resulted. Botswana and Zimbabwe are the best examples of countries where the government has made human resource development a top priority and where A.I.D. has played a key role in expediting new programs. The majority of African countries have not yet made such a commitment, but a number of recent studies by the World Bank, the United Nations Development Program, and the African Development Bank show that, with a combination of such commitment and collaboration from the international donor community, needs for education and training could be largely met.

LAC SCHOLARSHIP PROGRAM

Senator Leahy: With increased 1984 and 1985 money available for scholarships/training students in Latin America, what new efforts have been initiated? (There are indications that the increases are simply added to the established programs/projects and approaches being administered in a few countries, primarily in Central America, without fully assessing those programs and approaches. Some concerned officials in Caribbean countries recently commented that while the Soviet Bloc recruitment of students on Caribbean Isles has climbed steadily, they feel neglected with regards to U.S. scholarships.)

Mr. McPherson: The new LAC scholarship initiatives have departed radically from A.I.D.'s traditional participant training activities in several important ways. The new programs:

1) target younger and more socially and economically disadvantaged individuals rather than the technically qualified mid-career professionals already employed in development programs;

2) emphasize undergraduate and technical-level training rather than graduate-level programs;

3) focus on political exposure to U.S. institutions and values as well as on the technical/academic content of the training program;

4) require a statement from each participating country on the extent and nature of Soviet, Cuban and Eastern European training and a strategy for the use of A.I.D.'s initiatives to counter the communist efforts; and

5) incorporate new mechanisms for cost containment and management control of training.

Based on the recent increased funding available for training and scholarship activities in Central and South America and in the Caribbean, the number of A.I.D.-sponsored individuals from the region has increased from about 800 per year in the late 1970s to more than 4,000 this fiscal year.

A new training initiative is scheduled for implementation late this summer. This program, the Presidential Initiative for the Island Caribbean, will substantially increase the number of trainees coming to the United States from the Eastern Caribbean, Haiti, Jamaica and the Dominican Republic.

We, too, are very concerned about the extensive training in the Soviet Bloc of young people from Latin America and the Caribbean. Therefore, we welcome the Congressional support for the increased training of young men and women in the United States.

U.S. SCHOLARSHIPS TO THAI STUDENTS

Senator Leahy: Have substantive education/training programs been initiated and administered in Pacific and Southeastern Asian countries? [In October 1985, the Thailand National Security Council (NSC), Secretary General--Squadron Leader Prasong Soonsiri--publicly criticized the Soviet style of recruiting Thai students without obtaining Royal Government of Thailand approval and the treatment of certain Thai students in Moscow. Thailand NSC Chief Prasong said that, in the future, unless authorized Thai officials were involved in the recruitment of Thai students for study in communist countries on Soviet scholarships, the degrees earned would no longer be recognized in Thailand. He expressed further concern that the number of Thai students granted Soviet scholarships had increased from 5 in 1979 to 73 in 1985] How many U.S. scholarships were granted Thai students in 1985?

Mr. McPherson: In 1985 the United States granted 39 long-term academic scholarships to Thai students. Another 10 Thai students continued their studies under U.S. scholarships awarded prior to 1985. Fields of study included management and administration, agriculture, engineering, and economics. These scholarships include A.I.D. sponorship, as well as Fulbright and Humphrey scholarships provided under U.S. Information Agency auspices.

In addition, 162 Thai students received scholarships in 1985 for short-term training in the United States, Thailand or third countries. A.I.D., U.S.I.A., and the U.S. Department of Education provided the short-term scholarships. Many of the areas of study were the same as for long-term scholarships. Other programs include health, population industry/energy, and education. All of these program are implemented with the full knowledge and approval of the Thai government.

A.I.D. LOANS

Senator Leahy: Loans comprise a comparatively small but growing segment of the U.S. foreign economic assistance program. Administered principally by A.I.D., loans are made available in the form of projects designed to promote economic growth (Development Assistance), cash and balance of payments support to help achieve political stability and economic security (Economic Support Fund), and agricultural commodities to combat hunger and malnutrition (Food For Peace/P.L. 480). Most loans are provided on highly concessional terms, generally at 2-3 percent with repayment periods ranging from 20-40 years depending on the recipient country's economic status. They constitute about one-fifth of the U.S. bilateral economic aid program, the balance of aid being provided on a grant basis.

As of September 30, 1984, the United States had provided $53.2 billion of economic aid loans on concessional terms to developing countries since the end of World War II. How much of these loans has been repaid? How much interest has been collected? Of the balance due, how much is past due or rescheduled? Also, of the balance due, how much is considered uncollectible or doubtful for recovery?

Mr. McPherson: A.I.D. maintains records of loans made including balances owed to predecessor agencies. The total of these loans as of September 30, 1984, was $30.7 billion. By September 30, 1984, $9.7 billion had been repaid and $6.8 billion in interest collected. Of the balance due, $236 million was delinquent and approximately $80 million of this total is considered uncollectible.

A.I.D. LOAN TERMS

Senator Leahy: Development loan rates have been in effect since 1968. Given the rise in interest rates (i.e., cost of funds to the Treasury) since then, what is the rationale for not adjusting development loan rates correspondingly? What portion of A.I.D. loans has been made at higher than the minimum authorized interest rate?

Mr. McPherson: The Foreign Assistance Act establishes minimum interest rates for A.I.D. development loans of 2 percent during the grace period, that cannot exceed 10 years, and 3 percent during amortization. Over the 1982-85 period, 15.8 percent of the dollar amount of A.I.D.'s loans had interest rates that were above the statutory minimums.

In compliance with the intent of the FY 1985 Continuing Resolution, in which authority to determine the allocation of Development Assistance funds between loan and grant was returned to A.I.D., loan terms were hardened in some cases. Under current A.I.D. guidelines on the terms of aid, statutory minimum interest rates are applicable only on government-to-government loans to countries with a 1984 per capita GNP of $790 or less. Countries with 1984 per capita GNP of between $791 and $1,274 are to receive 25-year loans, including a 10-year grace period. Interest is to be 2 percent during the first half of the grace period, 3 percent during the second half and 5 percent during a 15-year amortization period. Countries with per capita GNP exceeding $1,274 in 1984 are to receive 20-year loans including a 10-year grace period. Interest is at 3 percent during the first half of the grace period, 4 percent for the second half, and 6 percent during a 10-year amortization period.

Though per capita GNP is an important parameter in determining country loan terms, the Congress in the FY 1986 Continuing Resolution recognized, by deleting the previous provision that linked loan maturities to per capita income, that other factors must also be considered. A number of countries face economic and financial instability because of, among other things, the bunching of short-term debt payments and payments on long-term development assistance loans. Thus, the profile of debt repayment schedules is an important factor to be considered when making judgments regarding the ability to repay loans and appropriate loan terms. For this reason, among others, loan terms actually applied to a given country may differ importantly from those called for by its per capita income.

DEBT RESCHEDULING

Senator Leahy: As of September 30, 1985, $7.1 billion, or over one third of A.I.D. loans outstanding, had been affected at least partially by rescheduling. Which countries have undergone multiple debt reschedulings? How many times? Are they continuing to receive further U.S. aid? Loans or grants? How much of principal and interest due in fiscal year 1985 was actually collected and deposited to the U.S. Treasury?

Mr. McPherson: The following table shows the number of reschedulings by country and the form of planned assistance in fiscal year 1986. A.I.D. collected and deposited with the U.S. Treasury $736.5 million during fiscal year 1985.

Country	Number of Rescheduling	Form of Assistance Planned
India	3	Grant/Loan
Pakistan	4	Grant/Loan
Turkey	3	Grant
Indonesia	2	Grant/Loan
Liberia	4	Grant
Uganda	2	Grant
Sudan	4	Grant
Poland	2	Grant
Ecuador	2	Grant/Loan

Country	Number of Rescheduling	Form of Assistance Planned
Costa Rica	2	Grant/Loan
Senegal	4	Grant
Zaire	6	Grant
Ivory Coast	2	None
Morocco	2	Grant/Loan
Madagascar	2	Grant
Brazil	(2nd in process)	None
Niger	3	Grant
Zambia	2	Grant
Peru	3	Grant/Loan
Jamaica	2	Grant
Chile	4	None

OUTSTANDING A.I.D. LOANS

Senator Leahy: As of September 30, 1985, A.I.D. loans outstanding amounted to $19.3 billion. Has this amount been confirmed with the debtors and is it considered to be collectible? When are these receivables due to be repaid? What is the average earning rate (yield) on the loans?

Mr. McPherson: Upon the initial disbursement authorized in a loan agreement, A.I.D. provides the debtor with a notice of the disbursement made and the date of the first interest payment. When the final loan disbursement is made the debtor is provided an amortization schedule for future payments of principle and interest. Billings are made on a regular basis approximately sixty days in advance of the due date. Disputes are rare and debtors are informed of amounts owed.

Of the $19.3 billion in loans outstanding, approximately $311 million are balances outstanding on loans to Vietnam, Iran and Nicaragua. This amount could be classified as uncollectible at this time.

Loan terms vary and the $19.3 billion outstanding includes new loans as well as agreements executed in the late 1940s. The average earning rate over the 40-year repayment period is approximately 2.75 percent.

LOAN ACCELERATION

Senator Leahy: As of September 30, 1985, A.I.D. had continuing management responsibility for $677 million of loans made by predecessor agencies and $474 million of Public Law 480 loans repayable in local currencies. A number of these loans, at highly concessional interest rates, remain on A.I.D.'s books despite a provision of FAA Sec. 127 which stipulates that the A.I.D. Administrator shall contact those recipients of concessional loans by predecessor agencies whose financial resources make possible accelerated loan repayments to negotiate such accelerations of repayments. Countries which appear to be candidates for meeting this criteria are the following

COUNTRY	AMOUNT ($ Millions)	INTEREST RATES (Percent)
Austria	15	3.0-4.0
Finland	11	3.0-4.0
Korea	6	0.75-2.5
Malta	5	3.0
Spain	90	3.5-5.0
Taiwan	9	3.5
United Kingdom	7	2.5
Yugoslavia	23	0.75-5.0

What efforts are being made to accelerate these and similar loans?

Mr. McPherson: In accordance with Section 127 of the Foreign Assistance Act, a review of the economic position of all countries with outstanding concessional loan balances is performed each year in order to identify any countries whose economic situation has changed sufficiently to warrant consideration for accelerated repayment. The A.I.D. review focuses on developing countries. A.I.D. defers to the Department of State on potential loan acceleration for developed countries because of the political relationships and implications.

A.I.D. Policy Determination 61, dated September 16, 1977, established three basic criteria for a country to be eligible for accelerated repayment: (1) an extremely strong foreign exchange position, (2) a high per capita income and (3) a debt owed A.I.D. of significant quantity.

The following values for the above criteria were selected for the purpose of identifying possible candidates:

-- a per capita GNP equal to or greater than $750 in 1973 prices ($1,527 in 1983 prices);

-- a ratio of reserves to imports of goods, services and income greater than 0:5 over at least a three-year period; and

-- an average ratio of current account surplus to imports of goods, services and income of at least 0:2 for the last three years.

The attached table provides the data on all developing countries who are current or former A.I.D. recipients with outstanding loan balances and a per capita income above the threshold established for this purpose.

Based on the above specified criteria, the review revealed no new candidates for accelerated repayment.

Countries Meeting at Least One of the Criteria for Accelerated Repayment

Country	1983 1/ PCI	Reserves/Imports (Avg. 81-83)	CAB/Imports (Avg. 81-83)	Loan Balance Outstanding As of March 31, 1985 ($ mil.)
Antigua & Barbuda	1,730	.063	-.272**	.150
Argentina	2,030	.328	-.494	35.185
Brazil	1,890	.226	-.556	973.123
Chile	1,870	.554*	-.586	369.334
Cyprus	3,720	.405	-.136	.234
Jordan	1,710	.285	-.082	199.382
Korea	2,010	.085	-.116	383.845
Malaysia	1,870	.293	-.253	2.739
Mexico	2,240	.227	.106	29.295
Oman	6,240	.305	.331*	3.124
Panama	2,070	.092	.026	169.828
Portugal	2,190	.044	-.243	244.210
Suriname	3,520	.255	-.193	.032
Syria	1,680	.036	-.098	8.926
Uruguay	2,490	.188	-.198	44.115
Yugoslavia	2,570	.076	-.024	33.109

1/ 1983 per capita income of $1,527 = 750 in 1973 prices

SOURCES: World Bank Atlas
IMF, International Financial Statistics
AID, W-224, Status of Loan Agreements
IMF, Direction of Trade Yearbook

* meets or exceeds established criteria
** average of 1980-82 figures

10/8/85

EFFECT OF GRAMM-RUDMAN ON A.I.D. OPERATIONS

Senator Leahy: Deficit Control Act of 1985, more popularly known as the Gramm-Rudman plan, sets a goal of achieving a balanced budget in five years by mandating specific ceilings for the Federal deficit. To achieve budget goals under the Gramm-Rudman plan, all Federal agencies including A.I.D. must make deep spending cuts in all budget categories. Such cuts will affect A.I.D.'s foreign assistance programs and operations.

How will the Gramm-Rudman plan affect A.I.D.'s operations in headquarters and overseas?

Mr. McPherson: The Deficit Control Act will have a significant impact on A.I.D. operations in Washington and in the field, in that all of the A.I.D. accounts, including operating expenses, are considered controllable and are subject to sequestration. We are particularly concerned with reductions in operating expenses because such reductions go to the heart of our ability to develop, to manage, and to monitor our programs and activities.

Furthermore, to the extent that reductions in operating expenses would lessen our presence and visibility overseas, A.I.D.'s unique ability to present the U.S. Government's case on economic policy and growth to developing countries would be threatened.

IMPACT OF GRAMM-RUDMAN ON A.I.D. PROGRAMS

Senator Leahy: Which of A.I.D.'s operations and programs will receive budget cuts? Which countries will be affected?

Mr. McPherson: Reductions required by the Deficit Control Act of 1985 will affect the foreign assistance budget in two ways. Initially, the deficit reduction targets impose a limitation on the overall budget level. If the sequestration element of the Act is triggered, additional reductions would be applied against all accounts defined as controllable, which in A.I.D.'s case, applies to all accounts. Under Development Assistance, reductions would be applied uniformly to each functional account (agriculture, health, etc.).

If reductions are made under the same instructions as were applied in FY 1986 for the Economic Support Fund, each individual country level would be reduced by the calculated percentage reduction.

In other words, Gramm-Rudman reductions would uniformly apply to all A.I.D.-assisted country programs.

A.I.D.'S PLANS TO LESSEN IMPACT OF GRAMM-RUDMAN

Senator Leahy: What ways are being considered to lessen the effect of Gramm-Rudman on A.I.D.'s programs and operations?

Mr. McPherson: We cannot lessen the fiscal effects of the budget reductions. Reduced resources require us to scale back our

activities. Nonetheless, we will try to ameliorate the programmatic impact (and stretch our resources) through the following measures: concentrating on fewer sectors should increase the impact of our assistance; seeking out opportunities to leverage A.I.D. funds with those of other donors or institutions; reducing or eliminating some programs or activities which will allow continued support of higher priority programs; and reducing the number of new project starts.

TRADE-OFFS BETWEEN PROJECTIZED AND NON-PROJECTIZED ASSISTANCE

Senator Leahy: Has consideration been given to using more non-project assistance in various countries? Non-project assistance, such as cash grants and development sector grants, require less A.I.D. staff and distribute funds more quickly. What are the trade-offs in project versus non-project assistance?

Mr. McPherson: In the case of countries which are experiencing economic instability, and where U.S. security interests are affected, cash transfers are the primary means of balance-of-payments support. Many, if not most, aid recipients have debt servicing problems and foreign exchange cash flow problems which require careful management. Cash transfers are the most efficient means of introducing foreign exchange into an economy. They enable timed infusions of specified amounts of dollars into these economies which help to create economic, and thus, political stability, by maintaining a controlled and rational flow of foreign exchange throughout the year.

On the other hand, projectized assistance is aimed at alleviating the suffering of the world's poor and hungry. To meet long-term development needs, the A.I.D. program concentrates assistance in the areas of food production, education, training, population, and health -- areas which hold the greatest promise of meeting the basic human needs of the poor majority in the Third World. Meeting these needs requires expansion in the production of food and other goods and services, more equitable distribution of available goods, and affordable and effective methods for widespread provision of public services.

The FY 1987 budget seeks to maintain a balance between both types of assistance -- long-term development aid and quick-disbursing non-project aid. Each is important in pursuing two very critical foreign policy objectives: (1) alleviating the suffering of the world's poor and hungry, and (2) fostering economic stabilization in countries of particular security and political importance to the United States.

EFFECT OF GRAMM-RUDMAN ON FOREIGN ASSISTANCE PROGRAM

Senator Leahy: The current assistance pipeline of obligated but not yet expended funds is $8.8 billion. The following countries lead the "pipeline" list:

COUNTRY	PIPELINE (millions)
Egypt	$2,147.9
Pakistan	496.2
India	382.1
Indonesia	287.3
Sudan	280.3
Philippines	268.8
El Salvador	249.6
Honduras	174.3

Has A.I.D. considered ways that the current funding pipeline might be used to help cut expenditures? For example, A.I.D. may suggest less new program funding for countries with large pipelines, or may consider deobligating slow moving programs in favor of higher priority and/or less costly ways of providing the assistance.

Mr. McPherson: There are good reasons for most large pipelines, e.g., large annual obligation levels (e.g., Egypt), forward funding as leverage for policy dialogue, multi-year contracts, commitments to multi-donor programs, and long-term participant training requirements.

A.I.D. continually reviews the pipeline at various levels, e.g., project, mission portfolio, and bureau/agency totals, to ensure they are not excessive in the context of the specific circumstances. As a result of this pipeline analysis, A.I.D. deobligated $132 million in FY 1985 and is utilizing the funding for higher priority programs.

Using the pipeline in place of new budget authority, as you suggest in your question, would seriously disrupt program plans. Reducing new budget authority would mean delaying implementation and hampering development of new projects; eliminating funds needed for policy dialogue leverage; interrupting progress of ongoing tranche-funded activities; reducing participant training; sending political signals of reduced U.S. interest; and cutting back on funding for multi-donor projects. In short, the pipeline should not be used in place of new budget authority.

PLANNING AND PROGRAMMING PROCESS

Senator Leahy: The Country Development Strategy Statement process is a logical and useful mechanism for preparing A.I.D. country development strategies. Approved CDSSs, covering a 3-to-5 year period, provide the missions with a blueprint for a focused plan of action, and give A.I.D./Washington a basis for reviewing budget submissions and project proposals and measuring progress.

Do all missions have approved strategies?

Mr. McPherson: When CDSSs are approved, they are typically approved for three years. Thus, at any given point, there are missions with newly approved strategies, missions with strategies approved a year or two back, and missions in need of new strategy approval.

When new strategies are reviewed in Washington, the result of the review is either (a) approval of the strategy, (b) approval of the strategy conditional on the submission and approval of some additional material by the mission, or (c) rejection of the strategy and request for a complete rewrite. At any given point, it is typically the case that there are missions in each category.

PLANNING AND PROGRAMMING PROCESS

Senator Leahy: Can you estimate the time and resources involved in developing, approving, and/or updating country strategies? If so, how do the resources expended now compare, for example, to prior years when virtually all missions were required to develop new strategies or update old ones on a yearly basis?

Mr. McPherson: Because A.I.D. has such varied country programs, ranging from Egypt with a multi-billion dollar portfolio to countries with very small programs, the time and resources involved in developing and approving country strategies vary considerably. The only constant is that strategy development and review is a major activity both in the field and in Washington. In Washington, the review effort involves not just A.I.D. but other government agencies as well. Inside A.I.D. the review brings together representatives from the central bureaus and the regional bureaus.

A.I.D. has been successful in reducing the number of strategies that are reviewed or updated each year. This has produced a significant savings in time and resources. This year, for instance, only seven countries submitted new or revised CDSS documents.

PLANNING AND PROGRAMMING PROCESS

Senator Leahy: Could you provide examples of missions in each geographic bureau whose strategies have not required substantial changes since being approved? Please state how long each has been in effect.

Mr. McPherson: Listed below are examples of A.I.D. missions whose country strategies have not required substantial changes since approval together with the date of approval:

Latin America and the Caribbean

Costa Rica, 1984
Bolivia, 1984
Ecuador, 1984

Africa

Kenya, 1984
Zambia, 1983
Botswana, 1983
Malawi, 1984

Asia/Near East

Bangladesh, 1984
Indonesia, 1983
Nepal, 1984
Oman, 1984

PLANNING AND PROGRAMMING PROCESS

Senator Leahy: In concert with A.I.D.'s yearly budgeting and programming process, do you see any value in encouraging missions to submit alternative project proposals, particularly when missions are expanding activities, to give A.I.D. more flexibility in making budgeting and programming decisions?

Mr. McPherson: As part of the annual budgeting exercise missions are routinely requested to identify the program implications of alternative budget levels. Typically, this involves the missions in specifying which new projects they would be able to undertake if they were to receive funding above current levels.

Because of the significant resources involved in developing full project proposals, it is not a good idea for missions to undertake major project development efforts that are out of touch with budget restraints. On the other hand, when programs are expanding, or when political considerations (e.g., in certain ESF countries) make it very difficult to obligate below a specific level, it is particularly important that missions have alternative projects; otherwise, there would be pressure to approve projects that do not meet developmental criteria.

A.I.D. CASH ADVANCES

Senator Leahy: Each year A.I.D. makes cash advances amounting to millions of dollars to contractors and grantees to carry out agency activities. In general, GAO noted that missions visited in a recent review have initiated or planned actions to limit advances to amounts needed to cover recipients' immediate disbursing needs. GAO found, however, that missions in Indonesia, Niger, and India did not periodically review the reasonableness of outstanding cash advances and the mission in India should also document project files to support requests for advances.

Has A.I.D. instructed the missions in Indonesia, Niger, and India to review outstanding cash advances at least quarterly to determine whether the advances are excessive and should be reduced or eliminated?

Mr. McPherson: A.I.D./Washington has been advised that USAID/India has issued a mission order which requires quarterly review of outstanding advances. USAID/Indonesia has confirmed that quarterly reviews of outstanding advances are now being performed.

A.I.D./Washington is awaiting confirmation from USAID/Niger that outstanding cash advances are being reviewed quarterly to determine whether the advances are excessive and should be reduced or eliminated.

Senator Leahy: Has A.I.D. instructed the mission in India to include justification in project files for cash advance requests?

Mr. McPherson: USAID/India has advised A.I.D./Washington that the mission order on advances will be revised to include justification in project files for cash advance requests.

A.I.D./CASH ADVANCES, PROCUREMENTS, AND PAYMENTS

Senator Leahy: A.I.D. guidelines provide that procurement agents should seek bids from a reasonable number of suppliers in order to obtain commodities for A.I.D.-financed development projects at the lowest competitive prices. The guidelines, however, do not require agents to provide A.I.D. with information on the extent of price competition or obtain A.I.D. approval for individual procurements that do not exceed $100,000. In Niger, GAO found that 11 of 12 individual procurements in fiscal year 1984 and the first 8 months of fiscal year 1985 were for less than $100,000. The 11 procurements totaled $312,000 and ranged in value from $20,000 to $78,000.

In countries such as Niger, where the great majority of individual commodity procurements do not exceed $100,000, what procedures does A.I.D. have to assure that agents are obtaining price competition in the purchase of commodities?

Mr. McPherson: While the normal A.I.D. policy permits an agent to proceed in small value procurement - contracts under $100,000 - without A.I.D. providing advance approval of the contract, A.I.D. procedures are designed to assure that the agent solicits offers seeking the lowest price from as many sources as practical. An agent cannot enter into a single source negotiation unless A.I.D. has authorized a non-competitive waiver which must be meticulously justified. Where the procurement exceeds $25,000, our procedures require the agent to advertise his solicitation in an A.I.D. bulletin which widely disseminates the trade opportunity in the United States thus promoting price competition. The guidelines provide that the agent must maintain records showing from whom offers were solicited and obtained, and how the supplier was selected. These records are available to the host-country buyer, or A.I.D., for inspection, should there be an indication of impropriety in the contract award process. The guidelines further require that the price be reasonable. When claiming payment, the supplier of the commodity must certify to A.I.D. that, to the best of its information and belief, the price is reasonable; based on that certification, the price is subject to post-audit by A.I.D. When A.I.D. finds that a supplier has over-charged, a bill for collection is issued requiring refund of the overpayment. Generally speaking, price competition in A.I.D.-financed procurement is also importantly assisted by the working of private sector market forces. The U.S. commodity export market is highly competitive, and suppliers who lose out on an offer that they believe should have been accepted by an agent can be expected to lodge a protest with A.I.D. While not common, the award protest procedure does provide a constraint on improper action. And, the fact of competition among the relatively small agent community of 15 to 20

firms serves to assure adherence to A.I.D. competitive procedures. No agent wants to be branded as ineligible for further A.I.D.-financed business.

Senator Leahy: In countries such as Niger, has A.I.D. considered reducing the base amount of individual procurements for which agents must submit information on price competition?

Mr. McPherson: A.I.D. intends that the small value procurement process be short and simple. Though, as in all A.I.D. project procurement procedures, our policy includes the requirement that A.I.D. approve contracts exceeding $100,000. As a matter of fact, however, A.I.D. has reduced the base amount to zero in many small value agent contracts by adding a provision requiring our advance approval of all the agent awards under the particular contract. Regardless of what the specific approval threshold may be, A.I.D. has sought to build into the procedures important controls that provide reassurance that the agent will act responsibly, will compete the purchase and that the supplier's price will be reasonable. An agent, to be hired, must competitively seek the contract and demonstrate both its responsibility and its qualifications. Reducing the threshold for all small value procurement is not, in A.I.D.'s judgment, an appropriate added control and is not now being considered. Such action would, we think, add to the administrative burden of project staff already charged with doing more with less.

A.I.D. PAYMENT PROCESS

Senator Leahy: GAO noted that some A.I.D.-financed projects in India have multiple sites and are located in remote rural areas. The mission in India needs to develop a method for inspecting these projects before approving payments. Also, GAO noted that project officers in USAID/Niger should adhere to the requirement that they state the basis for approving vouchers for payment.

Has A.I.D. headquarters been monitoring efforts by the missions in India and Niger to improve the payment process?

Mr. McPherson: In December 1983, A.I.D./Washington (A.I.D./W) issued policy guidance to all missions for improving the Agency's payment process. Initially, the missions were required to report annually to A.I.D/W on seven of the sixteen policy statements contained in the policy guidance. These included a general assessment of the mission's methods of implementation and financing, an assessment of the host country contracting and payment procedures, and an assessment of the mission's payment process. Starting in 1986, it is planned that the missions' annual reporting requirements will be expanded to include an additional three policy statements. These include the missions dealing with the adequacy of audit coverage in project papers, using the project officer checklist for administrative approval of vouchers, and utilizing the services of competent accounting firms to a greater degree in providing accounting and financial management consulting services. A.I.D./W is currently developing an automated tracking system which, among other things, will highlight financing and payment problems experienced by overseas missions. With these

expanded reporting requirements, we believe that our monitoring of the India and Niger missions, indeed all missions', payment process will be strengthened.

In regards to the Niger mission, it is preparing a mission notice requiring use of the administrative approval mandated in the Agency's payment policy guidance. By requiring all missions to report on compliance during 1986, the Agency can better monitor worldwide compliance with this policy statement.

Senator Leahy: Has A.I.D. headquarters assisted the mission in India to develop a sampling method for inspecting large projects having multiple locations and activities?

Mr. McPherson: In accordance with the payment policy guidance, USAID/India has contracted for the services of locally chartered accounting firms to perform voucher verification functions, as well as review and assessment of financial capabilities of host government implementing agencies, which in most cases are Indian state governments. The mission stated that the reports of review of state government project authorities submitted by the accounting firms covering five states serve as the basis for reliance on host country performance certificates and voucher reviews.

In its 1985 general assessment of methods of implementation and financing, the USAID/India mission specifically addressed the problems of monitoring and inspection of project activities located in remote rural areas. In the case of the Integrated Rural Health and Population (IRHP) project the mission hired an Indian engineering consulting firm to perform a 100 percent inspection of all 2,327 construction sites over a five state area. This strict compliance with the fixed amount reimbursement (FAR) requirement, in addition to being costly, has resulted in delays in making disbursements with a resultant sluggish project pipeline.

The mission's experience with fixed amount reimbursement under the Integrated Rural Health and Population project has caused it to consider new financing approaches in other projects, particularly for two irrigation projects. Implementation letters for financial implementation of these projects have been issued and detailed implementation plans, which include plans for A.I.D. monitoring and inspection, are nearing completion. Upon completion of the payment verification procedures, the entire package for financial implementation and monitoring will be submitted to the A.I.D./W Controller for review and approval. Upon receipt of this package, A.I.D./W will assist and advise USAID/India on the acceptability of the proposed financing arrangements, including the possibility of utilizing statistical sampling techniques as a basis for payment.

Senator Leahy: How does A.I.D. ensure that payments on projects located in remote rural areas in other less developed countries are appropriate?

Mr. McPherson: Other than Inspector General and other audits and the Agency's internal control process, implementation of the Agency's payment policy guidance ensures that payments on projects located in remote rural areas in other less developed countries are

appropriate. As stated previously, the payment policy requires an annual general assessment of methods of implementation and financing, assessment of the host country and mission payment procedures, A.I.D./W approval of methods of financing at the project design stage, and encourages use of financial consultants for financial management and audit. We are confident that the implementation of these payment policies and reporting systems will generally alert us to any inappropriate payments.

A.I.D. ACCOUNTING SYSTEMS

Senator Leahy: A.I.D. has had difficulty in tracking foreign aid disbursements because of problems encountered in installing an updated accounting system. Current A.I.D./Washington systems are limited in their capability to provide comprehensive reports on Agency operations and planned overseas systems will not include all of the missions.

What is the status of A.I.D.'s efforts to install an updated and more comprehensive accounting system, and what effect, if any, does continued reliance on existing systems have on the Agency's operations?

Mr. McPherson: A.I.D. is in the process of implementing it's new A.I.D./Washington (A.I.D./W) accounting system, called the Financial and Accounting Control System (FACS). Our current plans project full implementation of the system by the beginning of FY 1988. We believe that our existing systems can perform the necessary accounting functions as long as new legislation and Executive directives require only minor modifications to them. These systems, however, require more human effort than will the FACS, and steadily declining numbers in staffing make maintenance of these systems more and more difficult.

The new FACS will not change our method of accounting for and reporting of overseas disbursements. A.I.D.'s accounting is performed on a decentralized basis. Each overseas mission, whether it is doing so manually or with an automated system, maintains it's own detailed accounting records. It submits periodic summary reports (monthly, quarterly or semi-annually) to A.I.D./W. These data, in turn, are used in the preparation of Agency reports.

A.I.D. has little difficulty in tracking foreign aid disbursements. However, since the information is not maintained centrally it does take some time to obtain the specific data requested from our overseas missions. For those missions which are too small to support an automated system, pulling together this information can be a time consuming, labor-intensive task.

The ability to collect this information in A.I.D./W may improve over the next several years. The Office of Management and Budget, through its Circular A-127, is requiring Federal agencies to develop interfaces between their various systems so that data is entered into the overall financial system only once. A.I.D. has developed a five-year plan to try and reach this goal. Success will depend upon getting automated accounting systems into each overseas mission, availability of relatively inexpensive overseas

telecommunication capabilities and the staff and money to design and develop this complicated series of interfaces. The successful completion of this task will not change our current procedures of receiving only summary data in A.I.D./W, but will drastically ease the Agency's ability to obtain this information from the missions on a more timely basis when it is requested.

A.I.D. PERSONNEL

Senator Leahy: A.I.D. has persons with expertise, or at least experience, in nearly every type of situation, or project, currently within the Agency's mandate. However, in A.I.D.'s organizational structure an engineer could be working on personnel matters; a person with experience in contract negotiations and preparation could be working as a program officer in a geographic bureau; a person with experience in the private sector could be working as a country desk officer or in one of A.I.D.'s management or service bureaus.

Does A.I.D. have an automated personnel reference system through which particular talents, expertise or experience can be quickly identified and tapped for a specific need?

Mr. McPherson: A.I.D. has a computer-based reference system which provides a great deal of information about an employee's academic, professional and experiential history, as well as giving data on present and prior assignments. This system also records special qualifications (e.g., licensed pilot), principal occupational specialties, A.I.D.-sponsored training and foreign language capabilities. Such information can be used to quickly identify personnel to meet specific needs.

Senator Leahy: Does, or would not, such a system reduce the number of personal service contracts which A.I.D. lets each year?

Mr. McPherson: This system is used by unit managers, career counselors, and in assignment decision making. It does not impact materially on decisions regarding personal services contracting. Such contracts are usually products of a general shortage of in-house resources which precludes very much shifting of personnel to meet short-term needs.

Senator Leahy: Has A.I.D. management considered developing such a system? If so, what is the status of such an endeavor?

Mr. McPherson: A.I.D.'s Office of Personnel Management has considered the development and implementation of a still more refined information system that would better identify personnel based on their operational expertise, individual skills, and career aspirations. Funding constraints, however, have prevented much progress on this advanced system.

CENTRALLY FUNDED PROJECTS: EVALUATION PROCESS AND USE OF FINDINGS

Senator Leahy: A.I.D. centrally funded development projects, for example in population, agriculture, energy and resource conservation, have been criticized as not having sufficient

relevance or not making specific contributions toward solving development problems in recipient countries.

Does A.I.D. have a system for monitoring and evaluating these centrally funded activities? If so, please describe it.

Mr. McPherson: For the technical fields you mentioned, and all technical fields involving centrally-funded projects, the following applies.

A.I.D. has a system for evaluating centrally funded projects and for documenting the findings. Desk evaluations are done yearly by the project officer, based on a comparison of the scope of work, prepared a year in advance, with the yearly report of work completed. Every two and one half to three years, a project undergoes a comprehensive, on-site external review, similar to a peer review. Typically, the external evaluation panel includes experts from other U.S. institutions and from one or more developing countries.

Projects are monitored by oversight of the development of the yearly work plan, telephone conversations on an almost daily basis, frequent site visits, and review of the expenditure vouchers (which are monthly for most projects but quarterly in the case of large activities such as the Collaborative Research Support Programs). In each developing country, field activities are also monitored locally by a team that includes a representative from the host country and from A.I.D.

Senator Leahy: How are the results of such evaluations as well as the current status of ongoing projects, communicated to the A.I.D. missions that are affected by centrally directed activities?

Mr. McPherson: Results of evaluations and information on the current status of ongoing projects are communicated to A.I.D. missions through formal transmittal of evaluation reports, face to face discussions, materials disseminated through the information networking activities of the project, and training activities for host country nationals. Written reports of evaluations are sent to the technical officer (population, agriculture, etc.) in each A.I.D. mission. Whenever project personnel visit a host country, they brief and debrief mission staff, and discuss how the project can be tied to the mission's program.

Representatives of the Science and Technology Bureau attend the meetings of the regional bureaus' technical officers, and present information about the centrally funded projects. Representatives from the regional bureaus participate in the formal evaluations held at approximately three-year intervals. Opportunities for host country nationals to take part in training courses and workshops are publicized through the missions; the process of screening the candidates helps to focus mission attention on the work of that particular project.

Senator Leahy: To what extent do A.I.D. missions participate in planning, supporting and applying the results of centrally funded projects?

Mr. McPherson: Missions participate in all stages of design and implementation of centrally funded projects. In the planning stage, the Science and Technology Bureau sends a cable to missions describing the general intent of the proposed project and soliciting their suggestions as to what needs should be addressed in the project design.

Because of the large number of grantees and contractors working in population and family planning, the Science and Technology Bureau prepares a yearly Resource Allocation Plan (RAP) which provides guidance in the allocation of resources on a country-by-country basis. A.I.D.'s regional bureaus and missions provide input to this plan before it is finalized and sent to the grantees and contractors as their blueprint for the allocation of central resources.

The principal mechanism for missions to support centrally funded projects is the "mission buy-in." An increasing number of centrally funded projects are being designed to allow missions to request and fund specific assistance to resolve identified problems.

Another important form of support is funding by missions for participation of nationals from the host country in project training activities. Most training activities have as their purpose to develop a corps of persons able to apply the results of the project in each developing country.

Most projects also include a case study or demonstration in at least one developing country. In addition to the mission in that country, other missions are informed about the demonstration and invite interested nationals from their host countries to participate and observe.

FOOD AND AGRICULTURE ASSISTANCE

Senator Leahy: As a result of drought conditions and poor agricultural production in Africa, the worst famine in recent history devastated parts of many sub-Saharan countries. The United States responded to this most recent famine by providing millions of tons of emergency food. In fiscal year 1985 alone, it provided the sub-Saharan countries with 1.8 million metric tons of food valued at $770 million. Recent harvests have improved the situation in some countries; however, famine still lingers and affected sub-Saharan countries need additional food and other aid to help them recover.

Many problems were experienced in responding to this recent famine situation in a timely and effective manner; for example, untimely approvals of supplemental appropriations, long lags in delivery of food aid after congressional approval, and inadequate inland transportation and distribution systems for food aid. Some of these problems still persist. In addition, the emergency famine relief effort caused delays and drew scarce resources from A.I.D.'s normal assistance efforts in the affected countries.

What effect has the recent (and continuing) famine relief effort had on A.I.D.'s "normal" development plans and operations?

Mr. McPherson: The impact of the recent drought on A.I.D.'s development activities was lessened considerably by what we had learned from the 1973 drought. For example:

-- some governments and donors had become aware of the need for drought preparedness;
-- U.S. and other donors had staff and resources in place that were mobilized to address emergency needs; and
-- experience gained from continuing U.S. and other donor regular food assistance programs had led to a better understanding of port off-take capacity and transport requirements, making for more effective planning

Nonetheless, the greater severity of this drought and the urgency of the famine relief effort did force attention and resources to be temporarily diverted from A.I.D.'s development plans and operations. In the worst instances, the disrupted activities required special actions to get them back on track. But in most instances, the impact was merely to slow project implementation and disbursements.

Serious disruption in regular programs occurred in surprisingly few instances. In those cases where it did, substantial changes in the program were required. In Niger's Integrated Livestock project, for example, major redesign was necessary to respond to the drastic changes in the project's environment. Because of the drought, the pastoralists left the project site with their decimated herds for better pastures in the South. As a result, the A.I.D. mission is phasing out several components and focusing on livestock policy development and marketing rather than site-specific interventions.

The most common disruptions were delays in project progress as additional drought relief needs stretched capacities in A.I.D., the governments, and the support services of the private sector. The famine relief efforts diverted attention as some A.I.D. staff were shifted to famine relief efforts, and A.I.D. mission support offices, such as contracts, were busy with drought-related actions delaying actions on ongoing projects. Many projects faced difficulties with counterpart funding as governments diverted their resources to famine relief efforts. As an example of the demands on the private sector, ongoing A.I.D. projects and programs in Sudan had significant delays due to difficulty in getting trucking and road rehabilitation services because so much of the Sudanese capacity was being diverted to drought-related efforts.

From a more positive perspective, the urgency of the drought encouraged A.I.D.'s efforts to tighten the focus of its strategy in Africa in order to reduce the vulnerability of A.I.D.'s development activities to future droughts. Especially important in this respect is A.I.D.'s commitment to agricultural research and the strengthening of selected facilities of agriculture in Africa. The drought served to draw worldwide attention to Africa's needs and to spur donor countries, African nations and the international community to coordinate more effectively on Africa's priorities. The follow-up on the Africa crisis initiated by the Economic Summit countries at the Bonn Economic Summit is an example, as is the

recently completed United Nations General Assembly Special Session on the Critical Economic Situation in Africa.

In addition, the drought made clear to governments how important it is to collect the data required to rapidly identify a drought in order to provide a timely response. The United States is working with governments and other donors to establish a drought early warning and preparedness system to help forestall and respond to similar emergencies in the future.

Finally, the drought underscored the urgency of dealing with Africa's long-standing structural problems and correcting the economic distortions that increase Africa's vulnerability to drought. In sum, the drought emergency did temporarily divert some attention and resources away from long-term development, occasioning some delays. But today, most regular activities are proceeding normally. Of the 29 countries seriously affected by the drought, 25 do not require further emergency food assistance this year.

A.I.D./FOOD AND AGRICULTURE/AFRICA

Senator Leahy: Recent GAO studies have raised questions concerning the timeliness of emergency assistance, the need for more specific guidance on monitoring of food distributions, and agreement on food distribution plans before commodities arrive in country. Given these concerns, what has A.I.D. planned or done to more rapidly and effectively respond to famine situations?

Mr. McPherson: The GAO review of the 1984 and 1985 emergency assistance programs accurately points out problems that are encountered in furnishing emergency food assistance to the developing countries. A.I.D. and the U.S. Department of Agriculture are constantly seeking ways to improve and shorten the timeframe for procuring and shipping emergency food commodities. As the report indicates, steps have been taken to reduce procurement and shipping time by: prepositioning bulk grain and bags at U.S. ports; procuring processed commodities on a test basis in advance of anticipated requests (blind purchase); and meeting with private and voluntary organizations and industry representatives to seek ways of shortening the time required to obtain and ship commodities.

A.I.D.'s Food for Peace Coordinator will work closely with the U.S. Department of Agriculture to continue to identify ways to ensure that emergency food shipments arrive promptly overseas.

We also are in the process of completely revising A.I.D. Handbook 9, which provides guidance on all aspects of the P.L. 480 program. These revisions should significantly strengthen the program, particularly in the area of food distribution planning.

LESSONS LEARNED STUDIES OF AFRICAN FOOD RELIEF EFFORT

Senator Leahy: We understand that a number of "lessons learned" studies have been done of the 1984 and 1985 food relief effort. What studies have been done and what have been the

findings of these studies? How is A.I.D. using the results of these studies to improve its famine relief efforts?

Mr. McPherson: Two major studies have been conducted to assess the results of our African emergency assistance program and to formulate "lessons learned" for future emergencies. The first study, Evaluation of the African Emergency Food Assistance Program 1984-85, by DEVRES, Inc., consists of three field evaluations (Sudan, Mali and Chad) and a Synthesis Report. The Synthesis Report compiles lessons learned and develops operational guidelines based on a comparative analysis of the three country studies. The second study, An Analysis of the U.S. Response to the African Famine in 1984-86: Recommendations for the Future, by Development Associates, addresses policy and implementation issues with a focus on management in Washington and donor relationships. Both studies are currently under review in A.I.D..

The DEVRES report highlights the importance of preparedness and key information; management linkages between development and emergency food assistance; and the critical role of host governments and donor coordination. With regard to the impact of the emergency food programs, the evaluation found that the private sector — and particularly private and voluntary organizations — played a vital role in distributing massive amounts of food to remote areas in Sudan, Mali and Chad. Food for Work and specialized feeding programs made it possible to reach beneficiaries more regularly with needed food. Where complementary resources, e.g., tools, seed and technical assistance, were available and appropriately packaged with food, the impact of the emergency food program was enhanced. Similarly, when general distribution was accompanied by supplemental feeding and health inputs, the emergency assistance efforts were more effective. Traditional coping mechanisms, such as community sharing and the consumption of famine foods, were also essential factors in extending available food aid to more people and preventing many deaths.

A task force has been created to review the recommendations report on how they should be implemented.

FAMINE RELIEF FOR SUDAN AND ETHIOPIA

Senator Leahy: What is the status of famine relief for Sudan and Ethiopia?

Mr. McPherson: We have more than met our goal of 50 percent of the emergency food needs in Sudan. Of an estimated total need of 400,000 metric tons (MT) for the northern region we have provided 229,000 MT of basic grains and supplementary foods. The United Nations has recorded other donor commitments of 104,553 MT, as of May 1. More recently, field assessments have revised the total need downward in the westernmost regions of Darfur and Kordofan. Current food stocks are thus sufficient at this time to supply the regions through the rainy season. Food shortfalls are possible but this would be due to unexpected migrations of people between regions. Sudan enjoyed a record harvest at the end of 1985, and we are closely monitoring 1986 crop production data. There are still

large numbers of people who need assistance in Sudan because they were unable to plant crops, were displaced due to drought-caused migration or suffer from malnutrition. Southern Sudan is now suffering from the effects of civil war which is cutting routes of communication, preventing food movements by rail, river boat or road. The situation has become critical, and attempts are being made to negotiate safe passage of food and damage assessment teams.

The United States remains committed to meeting one half of the emergency food needs in Sudan and is well beyond the goal at this stage. The Sudan drought and southern civil war situation demand continuous close monitoring. As needs change the level of resources we provide may require adjustment.

The Ethiopian food situation this year is much improved over the 1984 and 1985 crop years. Rains have been better, and agricultural inputs have been available in many parts of the country. The short rainy season was excellent and produced a larger than normal crop. Prospects for the major harvest are excellent.

The northern and eastern portions of the country continue to suffer from food shortfalls. Although rains fell in most of the other areas of the country last year, displaced persons were unable to plant, and the lack of agricultural inputs resulted in pockets of less than adequate harvests throughout the country. The United States is providing one-third of the 900,000 MT of food aid requirements of those at risk.

Adequate food aid pledges have been secured for this year's relief operations; field reports indicate that those in need are being reached. However, the Government of Ethiopia (GOE) still has not made a total commitment to the food aid distribution program. There is a build-up of food stocks at Ethiopian ports, and current offtake performance will not decrease the backlog in the foreseeable future. The donor community continues to consider rescheduling of food shipments until the stocks at the ports are reduced to a reasonable and manageable level. Through the United Nations, the United States has consistently reiterated its concerns about the poor performance of the Ethiopian government.

The Ethiopian government has pursued a policy of resettlement of drought victims which has raised the concern of donors and voluntary agencies working in Ethiopia.

Ample evidence has surfaced that the resettlement program was implemented coercively and that mortality rates among resettlers were extremely high because of inadequate shelter, water and health facilities in the resettlement areas. As a result of the pressure placed upon the Ethiopian government by the United States and international community, there has been a pause in new resettlement activity, but the government has made no commitment to permanently suspend the program.

The support of the donor community and the United Nations has been enlisted to push the Ethiopian government to make the program

voluntary, to open sites to inspection, to provide basic services to participants in transit and at the sites, to improve planning and management of the program during a consolidation phase, and finally, to devote its scarce resources to pressing emergency requirements.

Senator Leahy: What are A.I.D.'s rehabilitation/recovery plans for these countries? What is the status of these efforts?

Mr. McPherson: A.I.D., in coordination with other donors, has been the single largest provider of recovery assistance to the Sudanese people. This was true in 1985 and is also the case in 1986. Through private voluntary agencies and contractor firms the United States has funded a number of grants and contracted for services in community development projects which include water systems, road maintenance, bridge repair and construction, railroad equipment and repairs, medical supplies and veterinary medicines. In spite of a reduction in mission staff in April to only five persons due to security reasons, we can report that recovery efforts continue to be of top priority and are generally on schedule. U.S. contract personnel have been instructed to avoid travel to Sudan at this time, causing some project delays, but we anticipate an end to this restriction as security improves.

A.I.D. has also provided considerable assistance for recovery efforts in Ethiopia. In 1985, much of the emergency feeding took place in shelters of displaced persons. This year those shelters are virtually empty. Feeding continues, but it is now targeted on families in their communities. This was an important prerequisite for recovery. Through private and voluntary organizations (PVOs), the United States has provided upwards of 17,000 MT of P.L. 480 Title II food to be swapped for seed. A number of grants, totalling just under $10 million, have been made to PVOs to distribute seed and agricultural implements. Some food aid is used for food-for-work projects. The A.I.D. mission in Addis Ababa reports that, generally, recovery efforts are on schedule. With continued good rains, the situation is very promising this year.

Senator Leahy: When will A.I.D. end its emergency relief and rehabilitation program in Ethiopia?

Mr. McPherson: The United States Government has been the single largest provider of emergency assistance to the Ethiopian people. Our objective is to help the Ethiopian people make a full recovery by the end of the next major harvest in December 1986.

By then, Ethiopian farmers and relief agencies will have had two agricultural seasons to recover from the worst ravages of the famine. Considerable recovery has already occurred. The major harvest of 1985 was predominantly positive. This year's small harvest, just completed, has been excellent. Prospects for the main harvest look very good. Recovery activities such as the provision of seeds and tools have been intensified. These efforts have made a significant contribution to alleviating emergency feeding requirements.

We will continue to monitor the situation and, as needs change, so will the implementation of this strategy.

FAMINE REHABILITATION ASSISTANCE

Senator Leahy: What rehabilitation assistance has A.I.D. provided famine-stricken countries other than Sudan and Ethiopia? What have been the results of this assistance?

Mr. McPherson: Rehabilitation assistance, as opposed to relief assistance, totalled approximately $14 million in FY 1985-1986, for projects in Burkina Faso, Mali, Niger, Chad, Cape Verde, Botswana, and Mozambique. The goal of rehabilitation activities is to restore drought victims to their former level of subsistence, as contrasted with the life-sustaining, emergency nature of relief activities. Funding for rehabilitation provided by the Africa famine supplemental appropriations was additive to normal mission programming, and supported some 20 projects in such areas as well construction, road repair, seed distribution, agricultural recovery, and food for work. The average lifespan of a rehabilitation project is about 12 months, compared to three months or less for relief activities.

Most rehabilitation projects were obligated this past March, and for these it is too early to document significant results. The Africa Bureau's newly installed monitoring system will provide information on implementation progress for these projects over the coming months. We do have data on a small number of activities which commenced operations in late fall 1985. Indications are that most are doing well. Two examples are detailed below:

— Chad Well Rehabilitation. This is a project to train Chadian government well technicans in well-drilling techniques and to renovate or build 135 wells throughout Chad, using some of the trained technicians. When finished, the wells will serve approximately 68,000 villagers. To date, all ten technicians have completed their training and are on the job. The well-drilling component is on schedule, and more than half the wells have been constructed or repaired. All tools, equipment, and replacement parts are in place.

— Mali Africare Food Production. This project promotes self-sufficiency in food by improving farmer production practices and the management of water and soil resources in the Timbuktu region of Mali. Thus far, 400 farmers have participated in the activity. The additional 450 acres produced a harvest of 1,450 metric tons of wheat this past growing season. Adjacent farmers also were able to harvest a wheat crop for the first time. The activity has produced more grain in a perpetually food deficit area as well as employment opportunities for villagers needing to get back on their feet after the drought.

I have attached a table listing supplemental-supported rehabilitation projects and funding levels for countries other than Ethiopia and Sudan.

Rehabilitation/Recovery Obligations, Selected Countries, Africa Famine Supplemental Appropriations

Country/Project	Amount Obligated
Botswana	
GOB Plowing Recovery	$ 1,000,000
Burkina Faso	
GOBF Wells	520,000
Africare Wells	350,000
Peace Corps Wells	50,000
SAVE Wells	60,000
Disaster Coordinator	28,000
GOBF Dam/Spillway	1,500,000
Africare Food for Work	20,000
Cape Verde	
Emergency Rd. & Bridge Repair	700,000
Chad	
DMS Well Rehabilitation	531,790
Mali	
Koro Self-help Wells	36,000
Africare Food Production	1,723,000
CARE/Macina Wells	150,000
UNICEF Feeding	747,000
UNICEF Water	590,000
Mozambique	
UNICEF Water & Logistics	3,250,000
Seed Purchase	800,000
Niger	
UNICEF Rural Water	1,000,000
Africare Rehabilitation	850,000
Lutheran World Relief Grant Tchin	61,000
Total	$13,966,790

INLAND DISTRIBUTION COSTS OF EMERGENCY FOOD

Senator Leahy: A.I.D. recently adopted a policy of paying a maximum of 50 percent of the inland distribution costs for emergency food. Why was this policy adopted? Who will pay the remainder of the inland distribution costs of food shipments to the

Sudan and to Ethiopia? How has this affected distribution of food to the famine victims?

Mr. McPherson: In FY 1985, Congress authorized payment from the P.L. 480 Title II budget for internal transport costs of emergency Title II food. During that year, A.I.D. worked with voluntary agencies on a case-by-case basis to share the costs of internal transport.

By FY 1986, it was evident that the voluntary agencies and such organizations as Band Aid/Live Aid and USA for Africa had collected up to $200 million from the public to fight starvation in Africa. Since the U.S. Government had traditionally purchased food and paid for transport to drought-stricken countries, A.I.D. determined that the resources available to the private and voluntary organizations (PVOs) should allow them to pay for 50 percent of the inland transport costs after it arrived at the foreign port or point of entry. This policy was adhered to for both PVO and bilateral emergency programs. Where certain PVOs had difficulty funding their portion of the costs, A.I.D. approached recipient governments, other donors, Band Aid/Live Aid and USA for Africa to supplement Title II and PVO funds. These sources have provided sufficient funding to transport all Title II food approved to date. The availability of this funding has allowed food to be distributed without major delay to famine victims.

TRILATERAL FOOD PROGRAMS

Senator Leahy: Does A.I.D. buy surplus food produced in some parts of Africa for distribution in other parts of Africa? What are the advantages/disadvantages and constraints to such purchases? How does it compare in cost with purchasing and shipping the food from the United States?

Mr. McPherson: A.I.D. has used barter-type arrangements to exchange U.S. commodities for surplus commodities in one country, which, in turn, are distributed in a third country. This program mode is known as a triangular or trilateral arrangement. In the past year, two trilateral arrangements were carried out in connection with the African drought emergency. In return for U.S. rice, Ghana released surplus white maize to drought-stricken Burkina Faso and Mali. Also, in East Africa, Zimbabwe and Malawi released surplus white maize to Mozambique in exchange for U.S. wheat.

The literature on trilateral programs is fairly scant, given that it is a relatively new concept. Major advantages normally credited to trilateral programs are speed, i.e., commodities can quickly move to needy recipients rather than having to be shipped from the United States; lower cost (although this remains a matter of debate); and the distribution of a familiar, preferable commodity to recipients. Disadvantages sometimes cited include a detrimental effect on interregional trade and governmental interference in what should be a private sector initiative.

Unfortunately, at this time we are unable to provide a cost comparison between a regular P.L. 480 Title II program and a

trilateral program. When cost data are assembled, we will be happy to provide this information.

FOOD FOR PROGRESS

Senator Leahy: In 1985 the President suggested a "Food for Progress" policy to provide food when needed to countries willing to adopt modern agricultural policies and practices. He said that this approach might help prevent tragedies such as the Ethiopian famine. What is the status of the "Food for Progress" initiative?"

Mr. McPherson: Food for Progress legislation was passed as part of the 1985 Farm Bill. Guidance on the new program has been issued. FY 1986 proposals have been submitted and reviewed. Programs have been authorized for Guinea and Madagascar at 30,000 metric tons each for FY 1986. Program implementation documentation is now being developed.

ASSISTANCE FOR AGRICULTURAL DEVELOPMENT IN AFRICA

Senator Leahy: It has been widely reported that the 1984 and 1985 famine in Africa was largely attributable to the agricultural systems in these countries and that foreign aid has not been effective in promoting food production. What is A.I.D.'s view of this matter? What changes are being made in the assistance program for Africa to promote agricultural development?

Mr. McPherson: A.I.D. believes that, on an aggregate basis, the substantial food deficit in most sub-Saharan African countries is largely attributable to the agricultural systems in these countries.

Although most sub-Saharan African countries have the potential to feed themselves in the long run, the region's food production has grown at only half its population growth rate. The agricultural systems in Africa have been plagued by a distorted policy environment that is not conducive to increased food production, over-reliance on the public sector in key production and marketing systems, local institutions that have not been effective in providing sustainable and productive support services (particularly in the areas of agricultural research and extension), lack of adequately trained personnel, inadequate infrastructure, and inappropriate production and land use and conservation practices.

In large measure, donors have been an integral part of the African food crisis. Frequently, donor agencies as well as the African host countries apply inappropriate strategies to respond to weak agricultural systems. For example, there is inadequate commitment among donors to the length of time it takes to develop appropriate and profitable technologies that farmers will adopt, to build an adequate cadre of appropriately trained personnel, and to establish sustainable agricultural support institutions. There is also insufficient understanding of the technical, socio-economic, and institutional interrelationships that constrain arid, semi-arid, and irrigated food production. In addition, the severely limited capacity of most African nations to absorb project

and food aid is at times overlooked. The latter is exacerbated by inadequate coordination of donor activities, which strains African countries' limited personnel and financial resources.

Changes that are being made in the U.S. assistance program in Africa to promote agricultural development include: (a) a shift in the agricultural strategy objective from the achievement of food self-sufficiency to the achievement of food self-reliance, which is defined as the ability to assure reliable food supplies through domestic production and international trade; (b) increased emphasis on developing a cadre of trained personnel and establishing effective and sustainable institutions for agricultural research, extension, marketing, and policy analysis; (c) acknowledgement of the long-term nature of establishing sustainable institutions and developing a cadre of trained personnel; (d) increased emphasis on assisting African governments to analyze, formulate, and implement favorable agricultural policies; (e) a more focused agricultural development assistance strategy so that A.I.D. resources are more effectively allocated to areas in which the United States has a comparative advantage, such as research in basic food crops; (f) initiation of a more flexible assistance mechanism through non-project modalities, such as the Commodity Import Program and the African Economic Policy Reform Program, to provide critical resources in support of the agricultural sector and to assist selected countries in implementing difficult policy reforms; (g) emphasis on coordinating U.S. development activities with those of other donors to alleviate the pressure on African countries' limited financial and human resources; and (h) allocation of resources to undertake research in areas in which A.I.D. has limited understanding, before undertaking full-blown projects. These areas include irrigation and water management, land tenure systems, and gender-related issues in agriculture. A.I.D.'s emphasis on investing in research on basic food crops and on developing national cadres of appropriately trained personnel for agricultural research institutions in sub-Saharan Africa are highlighted as major initiatives in A.I.D.'s plan for supporting agricultural research and faculties of agriculture in Africa.

PUBLIC LAW 480 TITLE II FOOD ASSISTANCE TO INDONESIA

Senator Leahy: Indonesia has received U.S. Public Law 480 Title II food assistance since 1964. For the three-year period 1983-1985, this food aid program averaged $4.8 million a year. GAO noted that in recent years the A.I.D. mission in Indonesia has submitted conflicting information to Washington about the nutritional status of the Indonesian population and the continued need for Title II food donations. In January 1983, the mission stated that it would have no objection to a phase-out of Title II assistance because of the relative nutritional well-being of the Indonesian people. In January 1984, the mission reversed itself, stating that "malnutrition is a national problem in Indonesia" and supported continuation of the Title II program. In April 1984, the mission reported to Washington that Indonesia is a country without a critical food shortage. In early 1985, A.I.D./Washington stated that it was reviewing the Indonesian Title II program to determine what its future direction should be.

Has A.I.D./Washington resolved the conflicting information provided by USAID/Indonesia about the need for the Title II program in Indonesia?

Mr. McPherson: The A.I.D. mission staff have never doubted the need for a Title II program in Indonesia. The seemingly conflicting information reported by the GAO probably resulted during the period when we almost phased out the Title II program. A few years ago the A.I.D. mission began questioning the impact of its large feeding program and thought of adding elements such as nutrition education and growth monitoring. The implementing private voluntary agency balked at the idea of such a redesign and the A.I.D. mission outlined plans for a phase out. Later the private voluntary agency agreed to participate with the A.I.D. mission in a joint evaluation of the program. The evaluation, conducted in 1982, showed the program as having little impact on the nutritional status of the people it served. This information led the private voluntary agency to agree to a redesign to include elements to make the program more development oriented. In West Java, nutritional deficiency has become a factor in 16 percent of deaths among children aged 1-4.

During the past two years, Indonesia has achieved self-sufficiency in rice and reduced the risk of a serious food shortage. This achievement, however, does not rule out malnutrition as a serious problem. Self-sufficiency in rice simply means that at prevailing domestic prices (significantly above international rice prices) available supply satisfies current demand. It does not indicate proper nutritional balance even with relatively high average levels of total caloric intake. Nor does it mean that all people have sufficient income to attain either adequate caloric levels or nutritional balance. High rice prices, skewed income distribution and the average Indonesian's allocating 70 percent of household expenditures for food (and even higher for poor Indonesians) have resulted in the simultaneous occurrence of malnutrition and rice self-sufficiency in Indonesia.

Senator Leahy: What are A.I.D.'s current plans for continuing Title II assistance to Indonesia?

Mr. McPherson: The A.I.D. mission is very satisfied with the progress under the restructured program. The mission secured $1.5 million of child survival funds for assistance in implementing the new program and has planned for the continuation of Title II at its current levels for the foreseeable future. In 1987 we expect to have solid empirical evidence of the increased effectiveness of the program.

Questions Submitted by Senator DeConcini

USE OF DESTINATION BAGGING DELIVERY SYSTEMS

Senator DeConcini: I am interested in saving the U.S. taxpayer money and at the same time improving the delivery of emergency famine relief. As I understand it, A.I.D. has shipped 15,000 metric tons of the Title II corn to Mali in bags rather than shipping in bulk and bagging at the port. I have read reports that enumerate many advantages associated with destination bagging. Why does A.I.D. refuse to consider this new system? Is there simply a refusal to change old ways or do I need to know more about these individual instances?

Mr. McPherson: Destination bagging for whole grains has proven to be a valuable time and cost-saving innovation for shipments of Title II cargoes. During FY 1985, over 75 percent of whole grains under Title II African programs were shipped bulk with destination bagging. This accounted for over 800,000 metric tons of cargo.

The recent emergency shipment of 15,000 metric tons of corn for Mali was shipped in bags because at the time procurement was made, there were a number of other country requests for corn under review. A.I.D. determined to bag the corn in the United States prior to shipment in order to maintain flexibility for a variety of ultimate destinations.

REFUGEE PROGRAM COORDINATION

Senator DeConcini: The ICARA II report represents the first formal attempt on the part of the Department of State to describe what it has done in the way of rehabilitation and development programs for refugees. I would like to encourage you to use appropriated funds for rehabilitation projects.

What type of development strategy and other planning initiatives does the Refugee Bureau in the Department of State have with U.S.A.I.D.? Is this simply after the fact or actually during the planning program?

Mr. McPherson: The Department of State's Bureau for Refugee Programs and A.I.D.'s Bureau for Africa have enjoyed a close and productive relationship working on rehabilitation and development programs for refugees since the massive influx of refugees into Somalia in the late 1970s. For the past six years we have consulted often on how best to deal with the problems, opportunities and solutions related to refugees. A.I.D., for example, participated completely in the planning of the American role in both of the International Conferences on Assistance to Refugees in Africa (ICARA). Both organizations consult and collaborate fully in planning of A.I.D. and State Department rehabilitation and development programs for Africa's refugees.

$225 MILLION EMERGENCY RESERVE FOR AFRICAN FAMINE RELIEF

Senator DeConcini: As you may recall, I recently visited Ethiopia and personally viewed the horrible famine and starving peoples of that country. Although astounded by the displacement

of families and the condition of refugee camps, I was truly amazed by the heroic efforts of the relief workers. By some accounts, the situation there has improved for victims of famine, though I am disappointed in the mass relocation program. As you are aware, Congress appropriated an emergency reserve last year for $225 million. Is this money still in the reserve? If it is, why has the President not made a decision to disburse these funds? Could this fund become a permanent emergency fund?

Mr. McPherson: Donors, recipients and international organizations agree that sufficient resources have been pledged to meet Africa's food needs this year. Virtually all internal transport needs for U.S. emergency food are now being met by a combination of A.I.D., African governments and privately contributed resources.

So far this fiscal year, we have obligated nearly $500 million in food aid to meet country and regional emergencies in Africa. This leaves us with a reserve of about $100 million to address further emergency needs as they are identified. At this point, we think these reserves are sufficient to meet emergency needs during the current fiscal year and that it will be unnecessary to draw upon the $225 million reserve.

The appropriation of $225 million reserve expires at the end of fiscal year 1986. However, the Food Security Wheat Reserve is available to meet extraordinary emergency requirements and additional food aid could be made available through Section 416.

CHILD SURVIVAL PROGRAM "TWIN ENGINES": ORT AND IMMUNIZATION

Senator DeConcini: I would like to know more specifically how your "twin engines" of oral rehydration therapy (ORT) and immunization can save lives and build a more cost effective health system. Do you have specific numbers and figures for the money saved in the long term for these rational and caring child survival programs?

Mr. McPherson: Up to one-half of all deaths in children in the developing world can be prevented by ORT and immunization. Deaths from dehydration associated with diarrhea can be prevented by replacing the water and electrolytes lost in diarrheal episodes. Deaths from many childhood diseases can be prevented by currently available vaccines.

Diarrhea can be treated in a number of ways. Treatment can be by intravenous therapy, a sophisticated and expensive process requiring skilled personnel and, usually, hospitalization. Antibiotics, anti-motility and other drugs are often administered in an attempt to cure the diarrhea; these drugs are costly, often inappropriate, and sometimes even harmful. The most cost-effective therapy by far is oral rehydration therapy, which can prevent death from dehydration in all but the severest cases - one to three percent of all cases. The cost implications of ORT for health systems are compelling. In the Gambia and Indonesia, the cost of ORT treatment per episode of diarrhea was approximately 73 cents. That figure can be compared to the cost

of inpatient therapy for diarrheal disease, which in Indonesia has been estimated at $20 per episode.

Fully immunizing a child in the developing world against the six major vaccine-preventable diseases costs between $5 and $15. Like ORT, immunization programs are inexpensive compared with the costs of treatment. For instance, in the United States the cost ratio of treatment to prevention for measles and pertussis is about 12:1. In Yaounde, Cameroon, the estimated benefit-cost ratio for a measles immunization program carried out between 1971 and 1976 was about 23:1. These ratios measure costs alone. If we could add the other costs -- ranging from the value of parents' lost work to the incalculable costs of suffering and lives lost -- the benefits of ORT and immunization programs would be even more dramatic. In addition, ORT and immunization can provide the basis for strengthening and building up a more comprehensive health system.

FAMILY PLANNING: THE DECONCINI AMENDMENT

Senator DeConcini: As you know, I am strongly opposed to the practice of abortion as a method of family planning and have constantly monitored A.I.D. programs to diligently enforce the prohibition of U.S. funds from any abortion related activity. My proposed and accepted language last year in conference not only restated opposition to abortion but sought to provide informed and medically approved ways by which to reduce the reliance on abortion. What assurances can A.I.D. provide this Congress that it will abide by this legislative intent? While I personally support natural family planning as one alternative, the U.S. funding should not go to only one method for people in LDC's to make informed choices. What is the status of family planning funding in light of this legislation?

Mr. McPherson: A.I.D. population policy calls for increasing access to and knowledge about a range of family planning methods so that couples may choose a method appropriate for their circumstances. We support safe and effective methods of contraception including oral pills, voluntary sterilization, condoms and IUDs. We also support natural family planning (NFP) with 2.5 percent of our population assistance budget so that NFP may be available to couples who choose it.

Following the language and intention of your amendment to the continuing resolution, all family planning activities which receive assistance funds in 1986 to provide family planning information or services for individuals are required by A.I.D. to either offer a broad range of methods or provide information about and referrals to other methods of family planning.

DIVERSION OF U.S. FOREIGN ASSISTANCE FUNDS

Senator DeConcini: Returning to the concern of the possible diversion of U.S. foreign assistance funds, would it benefit U.S.A.I.D. to have a study requested by GAO to monitor the controls and expenditure of monies in some recipient countries?

To the best of your knowledge, has there been any diversion of U.S. funds in Kenya? Do you have controls there?

Mr. McPherson: To my knowledge there has been no diversion of U.S. Government funds under any of our economic assistance programs in Kenya. We have established strict controls over all our program activities including local currency generated through Economic Support Funds, P.L. 480 Title I, and Development Assistance programs.

Senator DeConcini: A few years ago, the government there complained about the excessive number of donor projects which it did not have the capacity to properly implement. Does this type of situation lend itself to corruption and diversion of funds? Did you respond to this complaint? Have you received similar complaints since then or from other countries?

Mr. McPherson: To my knowledge no official complaint has been filed on the part of the Kenyan government regarding its inability to manage U.S. or other donor projects. However, at the 1984 consultative group meeting, donors reviewed their own project activities in Kenya and decided there was a need to limit project proliferation and to establish a formal donor coordination mechanism. Two donor coordination groups are now functioning in Kenya: an agriculture committee and a population committee. We believe these steps have been beneficial in reducing the monitoring and implementation burden of the Kenyan government, as well as reducing any potential for misuse of funds. We are continuing to focus on this issue and have received no other complaints on this matter. We urge all countries to ensure that they have the capacity to manage project assistance from all sources in our continuing discussions on A.I.D. programs.

ADEQUACY OF A.I.D. CONTROLS

Senator DeConcini: What type of controls does A.I.D. have over Development Assistance and ESF monies, P.L. 480 commodities, and the local currency generated under P.L. 480 Title I Programs?

Mr. McPherson: A.I.D. has a comprehensive set of policies and operating procedures in place which pertain to all aspects of foreign assistance and are set forth in a series of 33 handbooks. These procedures embody comprehensive internal controls over all facets of our operations and have been formulated over the years based upon project and program experiences, congressional concerns, audit and inspection findings, legislation and guidance from the Office of Management and Budget, Treasury, State, U.S. Department of Agriculture and other U.S. Government agencies. Our adherence to these procedures and controls are subject to periodic review by the Inspector General and other external auditors, as well as vulnerability assessments and internal control reviews required by the Federal Manager's Financial Integrity Act of 1982. In addition, and because of the extensive nature of our overseas activities, we have in recent years promulgated a series of payment verification policies which serve to strengthen controls and lessen the risk of financial and property diversions.

Senator DeConcini: What type of controls could A.I.D. impose that it does not now have and are there any problems with imposing such controls?

Mr. McPherson: As indicated above, we feel that our comprehensive system of internal control is a good one, fully adequate if implemented as designed to provide reasonable assurance against loss through fraud, waste, abuse and mismanagement. The major problem is that one of the principal bases for good internal control, adequate numbers of competent trained personnel to insure separation of responsibilities and provide adequate supervision and cross checking, has been eroded by the sharp shrinkage of our staff over the last twelve years. As I have reported in my last two annual certifications to the Congress and the President concerning the adequacy of internal control as required by the Federal Manager's Financial Integrity Act of 1982, this weakness is the one common element we find reported by our field missions worldwide from the largest to the smallest. With moderately increased staffing levels--and we believe good internal control can only be achieved with direct-hire personnel--we believe we could better implement our system as delineated in our handbooks and regulations.

REVIEW BY THE A.I.D. INSPECTOR GENERAL

Senator DeConcini: What does the Inspector General do, specifically, in monitoring the expenditure of U.S. funds or distribution of commodities?

Mr. McPherson: The Inpsector General's office is responsible for audits and investigations of A.I.D. expenditures and programs. Due to staffing shortages, audits cannot be made, on any reasonable cycle, of all A.I.D. operations. Therefore, the Inspector General (IG) has prioritized the A.I.D. audit universe and developed a planning strategy for accomplishing audits which are directed toward the most productive areas. These audits include reviewing the financial/compliance aspects, economy and efficiency and program results achievements of select Agency programs and expenditures.

The Inspector General's organization includes six overseas regional offices and a headquarters in Washington, D.C. The IG's staffing includes approximately 190 professional and administrative, U.S. direct-hire and local national individuals. These individuals, as required by the Inspector General Act of 1978, are to provide policy direction for and to conduct, supervise and coordinate all audit investigative activity within A.I.D.

REVIEWS OF A.I.D. CONTRIBUTIONS TO NON-A.I.D.-SPONSORED PROJECTS

Senator DeConcini: In the Philippines, the local currency equivalent of $92.5 million in ESF assistance is being provided for non-ESF activities, that is, World Bank, Asian Development Bank, and A.I.D. development assistance projects.

Does this type of assistance limit your audit efforts only to A.I.D. projects? If so, what assurances do you have that all of this type of assistance is actually being used for intended purposes?

Mr. McPherson: The Inspector General's office does audit, on a selective basis, non-A.I.D.-sponsored projects when A.I.D. monies represent the host country's contribution. However, due to staffing limitations, most project expenditures do not receive audit coverage. Only those projects which the Inspector General's (IGs) planning process indicates a need for audit coverage or A.I.D. management requests audit assistance will receive the IG's attention. The IG's office, in cooperation with the Philippines Commission on Audit, is currently reviewing selected ESF-generated local currency expenditures on non-A.I.D.-funded projects. These reviews were initiated based on the recent Congressional concerns in this area.

EMERGENCY RELIEF IN SUDAN

Senator DeConcini: Based on recent information, product loss and theft in Sudan of emergency relief has been about 20 percent? Do you think that the inclusion of performance standards would reduce this?

Mr. McPherson: We already have a system whereby the food shipment bill of lading is carefully checked by the private voluntary organization contractor at point of origin. This document is again checked at point of delivery, and any discrepancy is deducted from the shipper's contract payment. Losses have been kept to a minimum in Sudan using this system, especially considering the massive amounts of food that have been moved and the great distances and poor road conditions involved.

SUBCOMMITTEE RECESS

Senator KASTEN. This concludes this afternoon's hearing. The subcommittee will stand in recess until April 17 at which time we will receive testimony from public witnesses.

[Whereupon, at 3:28 p.m., Tuesday, April 15, the subcommittee was recessed, to reconvene Thursday, April 18, 1986.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1987

THURSDAY, APRIL 17, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2 p.m., in room S–126, the Capitol, Hon. Robert W. Kasten, Jr., (chairman) presiding.

Present: Senators Kasten, D'Amato, and Johnston.

NONDEPARTMENTAL WITNESSES

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

Today, our subcommittee will hear from public witnesses who have requested the opportunity to present their views on the fiscal year 1987 budget requests for programs under the jurisdiction of the Foreign Operations Subcommittee.

First of all, I would like to welcome all of you here today. Once again this year, we have quite a turnout. Over 20 witnesses are going to be testifying before the subcommittee this afternoon, and as a result, it will be necessary to follow the procedure that we have followed in the past. There is a limited amount of time for each witness. I would ask that the witnesses summarize their statements. The entire statement of each witness will be made a part of the hearing record. We will use the light system and give 7 minutes to each witness. Hopefully by doing that, we will have time for one or two questions, instead of using the entire time to read through the statement, leaving absolutely no time for questions. We normally allow 10 minutes per witness, but with 23 witnesses, we would run out of time this afternoon, and we have problems of scheduling in the Senate as well.

If you are able to use less time, obviously, we would appreciate it, remembering that your entire statement will appear in the record.

GEORGETOWN UNIVERSITY

STATEMENT OF WILLIAM L. GEORGE, S.J., GEORGETOWN UNIVERSITY

ACCOMPANIED BY HAROLD BRADLEY, S.J., GEORGETOWN UNIVERSITY

Our first witnesses this afternoon are Father Bradley and Father George of Georgetown University.

Father George, we are happy to see you before our subcommittee, and we look forward to your testimony.

Father GEORGE. I am Father George, and Father Bradley is with me, and we are appearing on behalf of the president of Georgetown. We just want to briefly report on three projects, the Central American Scholarship Program, the Hemispheric Migration Project, and the University Volunteer Internship Program.

Things are running very well. Father Bradley is the expert, the hands-on person, so he ought to really explain how well he has been doing with all of this.

Senator KASTEN. Father Bradley.

Father BRADLEY. We want to thank you for the support for all three of these projects.

CENTRAL AMERICAN SCHOLARSHIP PROGRAM

The Central American Scholarship Program, although it received its first funding from the Agency for International Development only 1 year ago, has demonstrated the feasibility of training young Central American students in community colleges and vocational schools.

In this 1 short year, 32 short-term students have completed their training, and have returned home where they are now using their improved skills and knowledge. Forty-one are currently in short-term training. One hundred and three students are in 2-year programs, and will be joined by an additional 128 students in September 1986. This will be 362 bodies that we will have had in this program by September 1. The community colleges are doing an excellent job of training these people. The community colleges are very pleased with them.

We came here to thank you, but we also came to request that you support our request for $4 million more for next year, which will be the same amount of money that we received this year, so that we may be able to continue the program.

HEMISPHERE MIGRATION PROJECT

We also want to report on the Hemisphere Migration Project, funded by the Bureau for Refugee Programs, which recently completed 16 studies on the impact of refugee and migrant flows on sending countries throughout Latin America and the Caribbean. We are asking for your support to continue that. Next year, we expect to continue studying, looking for better solutions for the Central American refugees. We are studying the impact of migration on smallholding agriculture in the Caribbean, the effects of development strategies on international migration, and return migration in several of these countries.

THAILAND MEDICAL STUDENTS PROGRAM

Finally, I want to thank you for your support last year of our program to send 14 medical students to Thailand to work in refugee camps. As you know, Georgetown University, the State University of New York at Buffalo, and the University of Minnesota sent those students.

With your support last year, the State Department gave us the money to continue this program for 1 year, with the understanding that we would get our own funding this year. I am pleased to report that we will be supported by foundations for this coming year. So that program is also going very well.

I would like to thank you and the committee on behalf of the president of Georgetown University for allowing us to come here and testify.

[The prepared statement of Father Bradley and Father George follows:]

PREPARED STATEMENT

WILLIAM L. GEORGE, S.J., GEORGETOWN UNIVERSITY
HAROLD BRADLEY, S.J., GEORGETOWN UNIVERSITY

Mr. Chairman, Members of the Subcommittee:

We are Father Harold Bradley and Father William George, Special Assistants to the President of Georgetown University, and we want to thank you and the members of this Subcommittee for the opportunity to report to you on programs which Georgetown University is carrying out for the Agency for International Development and the Department of State. We would like to express our appreciation for the support of our work by this Subcommittee.

The Central American Scholarship Program (CASP), although it received its first funding from the Agency for International Development only one year ago, has demonstrated the feasibility of training young Central American students in community colleges and vocational schools. In this one short year, 32 have completed short-term training of six months and have returned home where they are now using their improved skills and knowledge. Forty-one are currently in short term training. One hundred three students are in two-year programs and will be joined by an additional 128 students in September 1986. We will also place 56 new students in six-month training programs in September. We are realizing the considerable savings we anticipated, which we expect will become even more significant as the program expands and as a student exchange component becomes feasible. We would appreciate the support of the subcommittee for our request for $4,000,000 out of FY87 funds to continue this cost effective program at the same level as last year.

The Hemispheric Migration Project, funded by the Bureau for Refugee Programs, recently completed 16 studies on the impact of refugee and migrant flows on sending countries throughout Latin America and the Caribbean. At an inter-American conference hosted by Georgetown in February, over 150 senior policymakers, legislators and scholars from 16 countries focused on the policy implications of those research findings for foreign assistance programs, refugee programs, and immigration policy. As soon as monies are received for FY86, Georgetown will be commissioning policy-oriented research on four topics which we presented to the Sub-committee last year in our 3-year plan. They

are durable solutions to the Central American refugee crisis, the impact of migration on smallholding agriculture in the Caribbean, the effects of development strategies on international migration, and return migration. What we are requesting today, for FY87 is $700,000 for the second year of this 3-year plan. As an example we will concentrate our efforts on the chain of events in the Caribbean Basin in which outmigration has reduced domestic food production, which in turn necessitates increased food imports and causes further strain on the balance of payments. We plan to assess how widespread this downward spiral has been and how it will impact future development in the region.

We would also like to report on the University Volunteer Internship Program (UVIP) which for the past six years has provided medical care to refugees in Thailand through teams of medical students from the consortium of Georgetown University, the State University of New York at Buffalo, and the University of Minnesota. Recently Indiana University joined the consortium. During the recent past the UVIP teams have served at the Phanat Nikhom refugee camp. They have now begun to serve also at Site 2/Aranyaprathet, the border camp near the Thai/Kampuchean border about which your Committee expressed grave concern in your October 31 report. A grant of $120,000 from the Bureau of Refugee Programs helped continue the program this past year and provided a bridge to the private financing which has been obtained to continue the program until May 1987.

CENTRAL AMERICAN SCHOLARSHIP PROGRAM

The Central American Scholarship Program (CASP) provides an opportunity for underprivileged students from Costa Rica, Guatemala, El Salvador, Honduras, Panama, and Belize to study at community colleges and technical schools in the United States. It is funded by the Agency for International Development (AID) in response to the recommendations of the National Bipartisan Commission on Central America (NBCCA). The students are from low-income groups; they do not speak English (except those from Belize); and they are either studying or currently pursuing a trade or a skill in a technical, agricultural, or industrial field. CASP seeks candidates from

among the underprivileged, those who would not have pursued further training in their own country because of inadequate preparation, or those who would not have had the opportunity to study under similar developing training programs in the United States.

Candidates are recruited extensively throughout each country. The Executive Director of CASP travels inland to visit rural schools and to meet with local officials to explain the program which has been previously advertised in the press and on radio and television.

The goal of these scholarships, as expressed in the report of the NBCCA, is "to offer young Central Americans the opportunity to study in the United States, both to improve the range and quality of educational alternatives and to build lasting links between Central America and the United States." Each newly selected CASP student receives an initial letter that outlines not only the technical training offered but adds: "...the program will teach you about institutional structures in the United States and give you the opportunity to study American cultures and values...During your stay we hope that you will interact with many Americans and understand what they think, how they feel, what kind of work they do, and what kind of lifestyle decisions they make. The Americans you meet will want to find out the same things about you..."

The program's long range goal is to determine the effectiveness of using community colleges to offer a combination of academic courses with vocational training for underprivileged students from Central America and, eventually, to establish an exchange program between community colleges and Central American institutions which will lower the cost to the United States Government of scholarships for these students. The experience which Georgetown University has acquired over the past six years in administering the International Student Exchange Program (ISEP) is being used to develop the CASP network.

The program's short range goals are to prepare students for immediate employment in their own countries and to assist in furthering their careers by offering instruction in fields which are of personal interest to the participants as well as necessary to development in their countries.

These goals are to be achieved through long-term and short-term training. Long-term participants are selected from among students currently enrolled in

public, industrial, and agricultural high schools. After two years of training, these participants will receive an Associate Degree or a certificate of studies dependent upon successful completion of their courses. Short-term participants are workers, supervisors, or teachers who are currently employed and whose skills require upgrading. The short-term training will vary from three to six months and include a practical internship if possible.

Upon completion of these programs, two-year participants will return home to employment which has been provisionally arranged, or to complete their education in a university in their own country. Short-term participants will resume employment with the organization which nominated them for the training.

The program began when Georgetown University signed its first cooperative agreement with AID in March 1985. Only one year later, thirty-two Central Americans have completed short-term training of six months each and have returned home where they are now using their improved skills and broader knowledge. 103 students are currently in two year programs, and forty-one are in six-month programs. In September 1986 an additional 128 students will arrive for two-year academic-technical programs and 50 employed workers will be placed in six month training programs to upgrade their skills.

The high degree of cooperation we have received from the participating community colleges and technical schools and the experience Georgetown University had acquired earlier in administering the ISEP network have made this very short turn-around time possible. The institutions now participating and those that will participate in September 1986 are: Kirkwood Community College, Cedar Rapids, Iowa; Coffeyville Community College, Coffeyville, Kansas; Berkshire Community College, Pittsfield, Massachusetts; Altoona Area Vo-Tech School, Altoona, Pennsylvania; Waukesha County Technical Institute, Pewaukee, Wisconsin; University of Wisconsin, Richland Center; El Paso Community College, El Paso, Texas; Tri-County Area Vocational School, Bartlesville, Oklahoma. Fields of study include agriculture and agribusiness, clothing merchandising, computer science, electronics, community health, machine tool operation, quality control, and hospitality management. Additional schools and areas of study are under consideration, as the number of students grows.

Funding is provided by AID under Grant No. LAC-0130-G-SS-5045-00. Four million dollars has been provided by AID and will be augmented by an additional four million dollars this year. Of the eight million dollars, six million will be spent at the participating community college. We have an excellent working relationship with the Agency for International Development in the field and in Washington, and are very pleased to have a part in fostering the kinds of long-term relationships in Central America so important to peace and progress in that area.

GEORGETOWN UNIVERSITY

CENTER FOR IMMIGRATION POLICY AND REFUGEE ASSISTANCE

THE UNIVERSITY VOLUNTEER INTERNSHIP PROGRAM

December 1985 marked the sixth anniversary of the University Volunteer Internship Program (UVIP). Under the UVIP, fourth year medical students are directly exposed in an overseas setting to the principles and practices of refugee medicine under the guidance of senior faculty drawn from a consortium of medical schools. The consortium is made up of Georgetown University, the State University of New York at Buffalo, the University of Minnesota, and Indiana University, a recent addition. The program is coordinated by Georgetown's Center for Immigration Policy and Refugee Assistance (CIPRA), in collaboration with the Catholic Organization for Emergency Relief and Refugees (COERR) in Thailand. The UVIP was begun in 1979 with $600,000 dollars provided by Bishop Edmund Broderick, former director of Catholic Relief Services, part of the U. S. Catholic Conference (USCC). A grant of $120,000 from the Bureau for Refugee Programs, Department of State, helped to continue the program during the past year. By so doing, it provided a needed bridge until alternate private financing could be obtained to supplement the contributions of the universities and the participants themselves. Such private financing was recently obtained for operations through May, 1987.

Regularly scheduled teams are assigned to posts in COERR-sponsored refugee camps in Thailand. Each team is composed of three to six medical students, a senior resident and a senior faculty member. Recently, UVIP teams have served at the Phanat Nikhom refugee camp. They have now begun to serve also at Site 2/Aranyaprathet, a border camp of approximately 130,000 refugees. For the next year, teams will serve in both camps.

The program has two objectives: first, to provide needed medical relief to refugees streaming into Thailand from Cambodia, Vietnam, and Laos; and second, to develop a corps of health professionals with special skills, experience and interest in delivering medical services to refugee populations or to other peoples worldwide in times of natural or other disasters.

Since the program's inception in 1979, 213 medical students, 8 dental students, 55 nurses, 41 residents, and 37 senior faculty members have participated. Repeated follow-up surveys of the participants indicate that the objective is being met in terms of developing a cadre of health professionals who are highly interested in devoting all or a portion of their medical careers to international health activities. The response to the latest survey (September 1985) was, again, highly positive.

The pool of experienced medical resources was made available for possible use in connection with the crisis in Africa by private and voluntary agencies, such as the International Rescue Committee (IRC) and Catholic Relief Services (CRS). Enhancing the capacity of such organizations to respond to international crises, such as in Africa, underscores the importance of continuing the UVIP.

STATEMENT FOR THE RECORD

HEMISPHERE MIGRATION PROJECT

The Hemispheric Migration Project now sponsored by the Center for Immigration Policy and Refugee Assistance is continuing to conduct academic research on international migration and refugee issues of importance to U.S. and Latin American policy-makers and legislators. As part of a three-year research plan presented to the Sub-committee last year, our request for FY87 of $700,000 represents the second year of study.

The original project funded in FY84 was administered jointly by the Intergovernmental Committee for Migration and Georgetown University. To date, the Hemispheric Migration Project has completed sixteen studies conducted by Latin American and Caribbean researchers. An edited collection of these studies is to be published for wide distribution. Five surveys by eminent scholars in this field have been published that covered major trends in international migration and policy for distinct sub-regions of the Hemisphere.

In addition, the Inter-American Conference on Migration Trends and Policies was sponsored by Georgetown University in February 1986. The purpose of the conference was to bring together senior policymakers, legislators and scholars from throughout the Hemisphere to discuss the policy implications of the research - a goal Mr. Rodino placed before us when the Hemispheric Migration Project was born. Over 15 countries were represented, and as several researchers indicated, it was a rare opportunity to sit down across from policymakers from other countries to discuss problems and their solutions. Based on this conference and the research presented there, a concise policy analysis was prepared for wide distribution.

The research itself was carried out in the Caribbean, Central America, the Andean region, and the Southern Cone of Latin America. The emphasis shifted in each region depending on the specific migration pattern and national, regional, and U.S. policy interests. To give an example of the findings reported in this first phase, return migration to Colombia was discovered to be much smaller than anticipated by policy-makers and researchers alike. Planners had braced themselves for a massive return of Colombian migrant workers from Venezuela in the wake of an economic recession and high unemployment in the latter country. Receiving "camps" remained almost empty. What HMP researchers discovered was that while Venezuela's oil industry took a downturn affecting urban industry and construction jobs, the devaluation of its currency allowed for a rejuvenation of agriculture and border commerce. Thus, Colombians sought work in the renewed sectors, rather than return to even more acute conditions of unemployment and recession in Colombia.

On refugees, HMP research reported that the frequent failure of refugee self-sufficiency projects in Central America was due in large part to their isolation from the national market and services. What the refugees lacked in technical and managerial skills and knowlege of the market doomed many projects to failure. Rather, the research found that integrating refugee assistance into national and regional development plans would give refugees access to technical assistance and would eliminate unnecessary duplication of funds.

To give one more example of the results of the research conducted under the Hemispheric Migration Project, it was found that middle class, urban, skilled workers are over-represented in international migration flows from the Caribbean. Although it is commonly assumed that itinerant farmworkers and intellectuals constitute the bulk of migrant flows to the U.S., the fact that we now know Caribbean nations are losing substantial

numbers of their middle class will have direct impact on their future capability to develop viable, independent economies.

The results of the first round of research which were framed in policy terms for the inter-American conference guided the priorities for the current three-year research plan. As presented for this subcommittee last year, the priority funding areas in the research plan are the following:

1. Durable Solutions for Central American Refugees. Various refugee assistance strategies are to be assessed for their relative effectiveness, economic viability, and potential for resolving the refugee crisis. Having sponsored several country-specific research projects in FY86, we plan to commission studies on the long-term, effects of the crisis for refugee children in FY87. The mental health and education situations will be stressed in studies that will evaluate existing and needed programs. Both issues have been too often neglected in the overall refugee assistance effort.

2. Future of Smallholding Agriculture in the Caribbean Basin. Faced with high unemployment and severe population pressures, Caribbean workers are increasingly seeking jobs outside their own countries. Where the family plot was once the source for both jobs and food, the rural areas now continue to lose young, able bodies and men leave the women, children and elderly unable to keep up with the demand of the farm. Thus, smallholding agriculture declines, domestic food production declines, food imports increase, and foreign debt payments mount. This cycle of poverty is to be studied comparatively among several Caribbean countries in which the effects of outmigration on agricultural production will be documented.

In FY87, the projects will focus at a more macroeconomic level, assessing the impact of food imports on the health and nutrition of poor rural and urban households and on the balance of payments of selected Caribbean countries. Some pilot projects on the decline in smallholding agriculture in Central American countries will also be initiated.

3. The Socioeconomic Impact and Future Contributions of Return Migration. Research on return migration will begin FY87. Relatively little work has been done on this phenomenon, though it has been quite significant in some countries --in the case of the Dominican Republic, 40 percent of emigrants are estimated to have returned home. The project will commission studies in the Caribbean and Southern Cone to determine the kinds of work returnees engage in; how they invest their savings; whether they gained and are utilizing skills learned abroad; and whether they are creating employment for others upon return. Such information is essential to planners who must take into account the labor needs of the population in setting an appropriate strategy for development. It is imperative to establish socio-economic profiles of returnees in order to then develop programs and policies that will ensure that returnees become agents for development in their own home countries. Potential research sites are Argentina, The Dominican Republic, and Jamaica.

4. Adjustments in Sending Societies to a Reduction in the Foreign Market for Labor. With increased immigration restrictions and economic crisis continuing in many migrant receiving countries, the job alternatives outside the country for potential migrants diminish. The project will commission

studies to assess the adjustments made by would-be migrants. For example, do migrant flows continue, but to new destinations? Does the unemployment pressure in cities and border areas cause tremendous growth in the informal sector? And, what impact does this growth of the informal sector have on the domestic economy? For example, we will assess the capacity of that sector to absorb the surplus labor and provide for the basic income needs of the poor.

Executive Summary

Report on the Inter-American Conference

on

Migration Trends and Policies

This report covers the proceedings of a three day conference (Feb. 4-6, 1986) sponsored by Georgetown University's Center for Immigration Policy and Refugee Assistance. The conference presented research findings and policy recommendations from the Hemispheric Migration Project (HMP), a joint research venture administered by Georgetown University and the Intergovernmental Committee for Migration.

The report contains five major sections which reflect the primary HMP research themes. Each section introduces currently accepted premises concerning international migration. Relevant research findings and HMP policy recommendations follow the presentations of each premise.

Section One

Durable Solutions to the problems faced by Central American refugees and displaced persons are treated in this section. The durable solutions examined are repatriation, first-country resettlement, and third country resettlement. This section also evaluates the advantages and disadvantages of various refugee programs such as emergency assistance,

refugee programs linked to national development and employment schemes, and self-sufficiency programs.

Among the HMP policy recommendations offered are the following:

*Central American refugee, displaced, and immigration problems must be treated within the main core of development planning and programs, rather than continuing to be met with short-term emergency assistance.

*Planners should consider small-scale employment generation projects for refugees and nationals in non-traditional export commodities.

Section Two

Middle Class Emigration from Latin America and the Caribbean is the subject of findings and recommendations in this section. It describes the bottleneck in economic development that has led to large-scale emigration of skilled and semi-skilled workers and of middle-level management.

The HMP policy recommendations offered in this section include:

*Latin American and Caribbean policy-makers need to assess how middle class migration trends will alter the human resource level required for future economic growth.

*Educational and training systems need to be more closely geared to the needs of the developing countries in the region, with these systems being more carefully related to job opportunities.

Section Three

This section presents a synopsis of HMP work on Migration's Effects

on Agriculture in the Americas. Drawing on specific cases, there is a discussion of the factors which condition whether emigration will have a positive or negative effect on agricultural production and on the viability of rural communities. The decline in smallholding agriculture is said to exacerbate shortages in domestic food crops and to aggrevate balance of payments deficits as countries must import larger supplies of food to feed their people.

The HMP policy recommendations made in this section include:

*Small income-generating projects should be developed to increase the viability of rural, migrant households and communities.

*The Caribbean Basin Initiative should assist small farmers' efforts to produce food for local consumption.

Section Four

The Impact on Labor Exporting Countries of Reduced Foreign Demand for Workers is explained in this section. Data are presented which support the following premises: So-called, temporary migrant labor is often integrated into the ordinary operation of an economy, and is not necessarily redundant labor added on at boom times and discarded with economic slowdown. Consequently, massive return migration is not to be expected as an automatic response to economic recession and increased unemployment in traditional labor importing countries.

Among the HMP policy recommendations provided are the following:

*Successful, immigration reform must begin by targeting and redressing the root causes of labor migration rather than its symptoms. Such reform will require further research on the specific causes of labor

migration in concrete situations followed by the implementation of pilot projects and development policies that are informed by this research.

*Border development programs should be implemented to relieve unemployment pressures in those zones and to utilize current labor surpluses more productively.

Section Five

Migrant remittances, spontaneous return migration, and programs to attract emigrants and channel their savings into employment creation efforts are treated in this final section. The growing dependency on migrant remittances by households and national economies is described, as are the factors conditioning the success of failure of return incentive programs.

The HMP policy recommendations presented in this last section include:

*Return incentive programs should be based on the cooperation of the host and home governments and should recruit candidates only when appropriate jobs have been located for them.

*In the case of political repatriation, there is a need to create public service programs aimed at molding a positive national attitude toward returnees.

REPORT ON THE INTER-AMERICAN CONFERENCE ON MIGRATION TRENDS AND POLICIES*

February 4-6, 1986

A priority of the Hemispheric Migration Project (HMP)(see Appendix I) is to disseminate the results of significant and appropriate research to policy-makers in the Americas. The Inter-American Conference on Migration Trends and Policies (see Appendix II), sponsored by Georgetown University, served as a forum to discuss the policy relevant findings of sixteen studies sponsored by the Project. Among the conference participants were legislators and senior policy-makers representing sixteen countries.

This report summarizes the findings and policy recommendations discussed at the conference. This document makes the recommendations that emerged from the conference available to a wide audience and aims to promote further cooperation on international migration issues.

This report contains five major sections which reflect the primary research themes of the HMP. Each section introduces commonly held premises about international migration. Relevant research findings and HMP policy recommendations follow the presentations of each premise. The policy recommendations in the report come from two sources: HMP research papers and panel discussions at the conference.

Copies of the research papers that comprised the substantive basis of the conference are available from CIPRA. For further information on these papers, please contact: Patricia R. Pessar, Ph.D., Georgetown

*The three-day conference was divided into two parts. A closed session for scholars on February 4th focused on findings from the Hemispheric Migration Project and future research initiatives. A public forum on February 5 and 6 discussed the policy implications of the research.

University, Center for Immigration Policy and Refugee Assistance, Box 2298, Hoya Station, Washington, D.C. 20057, Tel. (202) 625-8753.

Section One

REFUGEES, UNDOCUMENTED, AND DISPLACED IN CENTRAL AMERICA: DURABLE SOLUTIONS

It is estimated that 350,000 refugees and nearly one million displaced persons fled their homes in Central America between 1980 and 1984. By far the largest number are Salvadorans who comprise 68 percent of refugees in the region and approximately 500,000 of the displaced. Guatemalans follow with 18 percent of the region's refugees and an untoled number of displaced estimated to range between 100,000-500,000 in 1984. Nicaraguan refugees were calculated at about 13 percent of Central American refugees in the region in 1984.[1]

The situation that awaited the refugees in countries of first asylum was difficult at best. Needs soon overcame the resources available from local, ad hoc efforts, necessitating national and international intervention. However, owing to many of the same conditions that brought about the refugee flight, Central America has experienced unprecedented economic crisis in the 1980s. Between 1982-83, real per capita Gross Domestic Product fell by more than 10 percent[2] and overall growth rates for 1986 are estimated to range between 1-2 percent, not the 6 percent hoped for in the Jackson Plan which resulted from the Kissinger Commission report.[3]

The dilemma that faces the Americas today is how to assist refugees in a way that is both humanitarian and economically feasible. It is assumed that continued international support will be necessary to sustain the overall refugee assistance effort.

I. PREMISE: The most desirable durable solution is repatriation.

Many believe that short-term emergency assistance should be given to refugees in anticipation of repatriation. Short-term assistance is favored because other refugee assistance strategies, such as self-sufficiency programs, may substantially improve the economic standing of refugees in the host countries, thus serving as a disincentive to repatriation.

B. RESEARCH FINDINGS:

1. The claim that improved economic circumstances in asylum countries are a deterrent to repatriation does not hold for all refugees (viz Argentine refugees), and may not hold for Central American refugees. Most Argentines returned home with the full realization that their professional and financial standing would be lower than they experienced as refugees abroad. Rather than economic reasons, the Argentines returned for nationalistic and family reasons.[4]

2. Programs of emergency assistance to refugees followed by rapid, large-scale return have proved viable in the case of relatively short-term forced population displacement. Such was the case of Nicaragua in 1979, when an estimated 130,000 of some 150,000 persons returned.[5]

However, emergency assistance has proved inadequate for longer-term refugee populations. In Costa Rica, for example, the financial burden on the country, coupled with a severe labor market crunch, moved the government to support durable solutions that would lead refugees to

self-sufficiency, if not also contribute to the economy. The cost of emergency aid per recipient family in 1984 amounted to over $1,000, a cost which will not diminish with each successive year a refugee remains.[6] By contrast, a total investment of just over $3,000 secures a job for a refugee in a Costa Rican cooperative.[7]

II. PREMISE: Political and economic turmoil in several Central American countries has been prolonged, and an imminent resolution and mass repatriation are not in sight. Therefore, linking refugee programs with national development and employment schemes appears to be the most realistic strategy within the context of Central American economies, as well as the most likely to promote self-sufficiency.

A. RESEARCH FINDINGS:

1. Costa Rica has implemented productive programs integrating refugees into the informal economy in activities that do not compete for local resources, markets, and labor. These programs have had a high failure rate, however, due to the lack of planning and lack of integration into the national economy.[8]

2. There has been little success when the projects isolate the refugees from national economies and infrastructural services, as has been the case with certain agricultural programs for Salvadorans in Costa Rica, Belize and Panama.[9]

3. Programs such as those in Costa Rica which attempt to match refugees with employers who require workers are often stop-gap efforts that run the risk of creating competition

and conflict between the refugees and the native-born population.[10]

4. Economic programs exhibit highest success rates when refugees and the local populations are integrated and receive joint benefits, as in the case of cooperatives in Nicaragua.[11]

B. POLICY RECOMMENDATIONS

1. Durable solutions to productively utilize the human resources that refugees represent should be further developed throughout the region.[12]

2. Central American refugee, displaced, and immigration problems must be treated within the main core of development planning and programs, rather than continuing to be met with short-term emergency assistance.[13]

National, as well as international development agencies must be brought into the planning and financing of these projects.[14]

3. Refugee projects should be integrated into national and regional development projects for the local population and refugees residing in the asylum countries.[15]

III. PREMISE: Self-sufficiency projects, such as those encouraging cooperatives, have received much attention and support from both voluntary and international agencies.

A. RESEARCH FINDINGS:

1. Self-sufficiency projects for Central American refugees have a high failure rate due to factors such as the refugee's lack of knowledge of how the informal market operates in the country of asylum and the relative inexperience of voluntary assistance agencies in sponsoring for-profit business activities.[16]

2. Furthermore, small projects which function in the informal economy of Central American countries often fail because the projects are added to an already saturated market and compete with local entrepreneurs. These activities often collapsed when outside funding is removed.[17]

B. POLICY RECOMMENDATIONS:

1. Refugee assistance programs should be integrated into national development plans.[18]

2. Since economic growth is fundamental to the recovery of Central America and inasmuch as the U.S.'s Jackson Plan recommends labor intensive export-led growth, planners should consider small-scale employment generation projects for refugees and nationals in non-traditional export commodities.[19] Cooperating entities might include Central American governments, the United States Agency for International Development, the United Nations High Commissioner for Refugees, the United Nations Development Programme, The World Bank, the Inter-American Development Bank, and international voluntary agencies.

Foreign governments and international agencies, on the one hand, and Central American governments, on the other, may differ about the sectors of the economy that should be targeted for investment and growth and the type of development to be pursued (e.g. capital intensive vs. labor intensive industrialization). Every effort must be made to reconcile these differences before employment generation projects for refugees are developed.

3. Refugees with skills needed to assess the feasibility of projects, to train the personnel, and to evaluate the programs should be recruited from within or outside the region.

Outside consultants should be brought in when such expertise is not possessed by Central American refugees or sponsoring agencies. To determine what type of consultation is required when funding is limited, more specific studies should be conducted on the priorities among technical, managerial and marketing skills.[20]

3. An international coordinating group of officials working on refugee programs should be established in Central America to share information and experiences on durable solutions attempted throughout the Americas.[21]

IV. PREMISE: Opportunities exist for the successful integration of refugees in South American countries in ways that promote the population and development goals of those countries.

A. RESEARCH FINDINGS:

1. Third-country refugee resettlement projects have

contributed to development in specific areas, while at the same time avoiding additional pressures on Central American countries of first asylum. Examples include the resettlement by UNHCR of Guatemalan refugees in rural Bolivia and the participation of Salvadorans in agricultural colonies in Argentina, a project jointly sponsored by the International Labor Organization and the Intergovernmental Committee for Migration.[22]

2. Resettlement projects outside Central America are not cost-effective in resolving the Central American refugee crisis and can assist only a small number of the hundreds of thousands of displaced and refugees in the region. The cost of transporting and resettling each Salvadoran family in Argentina averages U.S.$30,000.[23] In contrast, refugee cooperatives in Costa Rica entail an investment of U.S.$3,369 per job provided.[24]

B. POLICY RECOMMENDATION:

Since economic growth is essential for all Latin America and the Caribbean, any durable solution project that matches the human capital of the refugees and the local population with national and regional development should be encouraged in the region once the project's social and economic viability has been demonstrated.[25]

V. PREMISE: Central American refugee populations are not homogeneous.

A. RESEARCH FINDINGS:

1. Research has shown that refugees residing in border

areas of Honduras and Mexico commonly have agricultural backgrounds and little education. Women and children, who often live in family units, predominate in the border areas. The refugees in such camps in Honduras and Mexico are extremely young, with 50 to 60 percent reported to be under the age of 14.[26]

2. Studies also show that more educated, young and single men from semi-urban and urban backgrounds have settled in the cities of Mexico and Costa Rica. For example, two-thirds of the Salvadorans surveyed in a study conducted in Mexico City had some elementary or high school training; the same was true for 73 percent of the Guatemalans.[27]

3. Refugees/immigrants to Belize come in almost equal numbers from El Salvador, Guatemala, and Honduras. Comprising both men and women, the refugees/immigrants come in family groups from semi-urban and rural backgrounds. Their median age is thirty and the majority are unskilled and uneducated.[28]

B. POLICY RECOMMENDATION

In developing durable solution programs care must be taken to match the intended economic activities with the characteristics of the target population.[29]

VI. PREMISE: Displaced persons in Central America represent both an opportunity to engage these people productively in the economic growth of their own societies and a challenge to discourage the displaced from emigrating in search of employment.

A. RESEARCH FINDINGS:

1. Displaced persons programs serve as "economic safety nets." In El Salvador, displaced persons projects have encouraged people to return from refugee camps in Honduras and have discouraged emigration.[30]

2. There are an estimated 467,366 displaced persons in El Salvador. Research indicates that the majority plan to return to their communities of origin when hostilities end. Nonetheless, these displaced persons recognize that in the mean time they should take advantage of the economic opportunities available in the communities in which they are currently living.[31]

B. POLICY RECOMMENDATIONS

1. Displaced persons programs, such as the Jobs Program in El Salvador, should be more widely implemented.[32]

2. Employment generating projects should concentrate in the areas where the displaced are currently residing.[33]

Section Two

MIDDLE CLASS EMIGRATION

The majority of international migrants in the Americas are poor and unskilled. This is not surprising, since migrants will reflect the societies from which they come and most people in Latin America and the

Caribbean are poor and unskilled. What is worthy of attention, however, is that a disproportionate number of the total population of skilled workers from the Caribbean and South America are leaving their home countries to work abroad.

PREMISE: Migration in the Americas no longer fits into polar types--"rural, unskilled migration," and "brain drain." Much of the migration within the Americas involves urban, skilled and semi-skilled workers and middle level management. This middle class migration points to a bottleneck in the development process in many Caribbean and South American countries.

RESEARCH FINDINGS:

A. The Composition of the Migrant Population.

1. In Jamaica during the 1970's, professionals, skilled, and other white collar workers accounted for 70 percent of the employed emigrants who left the country, according to official statistics. In addition, there were significant losses of such skilled workers which were not recorded in official statistics. Between 1979 and 1984, there was an unrecorded outflow of professionals, estimated at 6,400 persons--a figure which was nearly as large as the officially recorded outflow. Among craftsmen the unrecorded outflow was 24,000, more than twice the number of the recorded loss of 11,000.[34]

2. For most Caribbean countries there has been a disproportionate loss of skilled and semi-skilled craftsmen, as well as professionals, administrators, managers, and technicians.[35]

3. A national household survey in Colombia shows that migrants to the United States come overwhelmingly from urban households (95 percent). Of the U.S. migrants, 44.6 percent had between 5.6 and 8.5 years of schooling and 18.5 percent had between 8.6 and 14 years of education. The majority of the migrants to the United States come from middle class families involved in professional, technical, and middle level management occupations.[36]

4. Uruguayan and Argentine emigration over the last two decades has been largely a middle class phenomenon. In Uruguay, migrants come from the ranks of skilled and semi-skilled industrial workers. In Argentina, two labor migration flows can be distinguished: one that responded specifically to low salaries and scarce opportunities for progress of highly skilled personnel, and another which emerged with the deterioration of the labor market for skilled and semi-skilled workers.[37]

B. Development and the Middle Class

1. Findings cited by researchers for selected Caribbean and South American countries point to a similar process of skilled and semi-skilled labor being expelled from stagnating sectors of the national economy, particularly industry, without other dynamic sectors being able to capture this displaced labor adequately.

On the one hand, export-based industrialization did spur some immediate growth in the 1960's and 70's through the greater opening of national economies to foreign investment and the consolidation of the export sector. On the other

hand, these modifications demanded little manpower, or when they did, low salaries were paid and a specific labor force was required (e.g. female workers in assembly plants). Thus, export-based industrialization did not alleviate unemployment among managers or among semi-skilled and skilled workers displaced from industry.

For example, in Argentina between 1976 and 1982, more than 300,000 positions in industry were lost. The displaced workers, as well as those newly entering the labor market, had to find employment in other sectors, remain unemployed, or emigrate.[38]

2. The majority of the skilled and semi-skilled workers from the Caribbean and South America were employed at the time of their emigration. Motives for emigration included a sharp decline in the standard of living of this middle class population owing to economic recession and wage freezes. The principal reason this population emigrated was not merely the absolute money gap between home and host country wages, as is commonly assumed, but also the fact that the income received at home was increasingly inadequate to meet middle class consumption standards.[39]

POLICY RECOMMENDATIONS.

1. Caribbean and South American policy-makers need to assess how middle class migration trends will affect the human resources level of the total population and its future economic growth. Future development strategies may encounter difficulties due to the shortage of workers with managerial and technical skills.[40]

2. To maintain a viable middle class and attract some members who have emigrated, Caribbean and South American countries must expand and stabilize their internal markets for locally produced goods and professional services.

Several policies should be pursued to attain this goal:
a) governments should negotiate with foreign investors and international agencies to ensure that when new ventures are initiated, nationals are better represented in management, administration, research, and marketing;
b) measures should be taken to ensure that workers in export processing zones receive the rights and enjoy the benefits of national labor legislation and receive at least the minimal, national salary in order to increase local purchasing power.[41]

3. Educational and training systems need to be more closely geared to the needs of the developing countries in the Caribbean and South America with these systems being more carefully related to job opportunities. Such reform will reduce the loss that occurs when those persons most expensive to educate and train--and hardest to replace--leave their home countries.[42]

Section Three

MIGRATION'S EFFECTS ON AGRICULTURE IN THE AMERICAS

Rural emigration occurs on a large-scale throughout the Americas. Migration pressures within rural areas accompany broad based social and demographic changes in agrarian society. Sometimes the migration from

rural areas is permanent; sometimes it is cyclical. In some cases migration contributes to the further stagnation and decline of farming communities. In others, migration directly contributes to the viability of small-scale agriculture and helps sustain poor rural families.

PREMISE: Within the Americas the causes of rural emigration vary as do the effects of emigration on agricultural production.

RESEARCH FINDINGS:

A. Expulsive Factors in Rural Emigration

1. Much emigration in Latin America and the Caribbean has been caused by the commercialization of agriculture. Commercialization involves consolidation of family farms, the adoption of new productive technologies, alterations in productive and commercial relations, and a significant expulsion of the rural labor force. Under these conditions, the displaced population normally loses not only its means of subsistence and a certain way of life, but also its permanent link with the country of origin. Illustrative cases in the Americas include Mexico[43] and Uruguay.[44]

2. A second pattern of rural out-migration grows out of a stagnant or unchanging economy in which productive changes do not keep pace with decreases in mortality, increases in fertility, and subsequent population growth. The result is the sloughing off of excess household labor permanently or temporarily (seasonal/cyclical migration).

An example of this second pattern is Haitian migration to the Dominican Republic. Research conducted in the

Dominican Republic showed that while 64 percent of the fathers of surveyed Haitian migrant workers had owned land, 75 percent of the workers themselves had no land or job prior to migration. There is a growing tendency among Haitian workers toward permanent, rather than temporary, migration. This is a function of both extremely limited economic options in Haiti, and increased demand for Haitian workers in the Dominican Republic for both sugar and coffee harvesting.[45]

3. A third pattern of rural out-migration represents a middle course between capital-intensive agriculture and the stagnant economy described above. In this instance, rural communities experience the pressures of population increase and have access to a limited land base. These conditions make cyclical migration necessary for some household members. Nonetheless, stability in land tenure and local opportunities for small-scale commerce increase the viability of the rural sector and make return migration more common and expected.[46] As described in the next sub-section, Bolivian migration to Argentina is an example of this third pattern.

B. The Effects of Migration on Rural Production

1. Emigration caused by a stagnant economy (the second pattern), characterizes many rural areas in the Caribbean. The result is often the "feminization" of farming and the decline of smallholder agriculture, when older women are left behind in rural areas with young children. These women have neither sufficient household labor available nor funds to hire wage laborers to maintain the family holdings.[47]

2. In St. Kitts Nevis, agricultural laborers frequently abandon the cultivation of food crops and sugar in anticipation of remittance monies from relatives who have migrated overseas. Incentives by employers to increase production and productivity are often of no avail.[48]

3. The decline of smallholder agriculture in the Caribbean exacerbates shortages in domestic food crops and aggravates balance of payments deficits as countries must import larger supplies of food to feed their people.[49]

4. In rural Bolivia, migration to Argentina is neither a symptom of rural decline nor an agent for the breakdown of rural families and their household economies. The majority of Bolivian migrants are men. The women left behind meet the daily consumption needs of the household through their own activities. When the male migrants return from Argentina, they invest their savings in land, housing, and commerce thus contributing to the long-term stability of the households.[50]

5. Haitian migrant workers in the Dominican Republic have expanded their role in local agriculture from sugar to coffee harvesting. Over 50 percent of the Dominican coffee workers are now Haitian. The displacement of Dominican workers in the coffee harvest continues because plantation owners prefer to hire Haitians who will accept lower wages and tolerate work/living conditions unacceptable to the native workforce. As a result there has been little pressure to modernize Dominican agriculture and an increase in rural to urban migration of the displaced Dominican workforce.[51]

POLICY RECOMMENDATIONS:

1. If we accept the premise that small-scale agriculture in the Americas brings the benefits of self-employment, some wage employment, the production of needed food crops, and a resultant decrease in expenditures of hard currency on food imports then efforts must be taken to assist the women whom male migrants leave behind. Small farmers (and particularly women farmers) need clear titles to land and access to inputs, credit, extension assistance, and research on small farm crops.[52]

2. To increase the viability of rural, migrant households and communities, small income-generating projects should be developed. Promising avenues include: food processing, repair and manufacture of agricultural equipment, production of agricultural inputs, and small businesses and service enterprises in the informal sector.[53]

This measure is especially important in countries, such as Bolivia and small Caribbean islands, where self-employment in agriculture and in the informal economy continues to far out-weigh employment in the formal, modern sector.[54]

3. A study should be commissioned of farming cycles in rural sending and receiving areas to identify the kinds of cropping that would allow seasonal migration without detriment to smallholder agriculture in home communities.[55]

4. The Caribbean Basin Initiative should assist small farmers' efforts to produce food for local consumption.[56]

5. In the Dominican Republic, mechanisms are needed to regulate the illegal flow of temporary Haitian workers. Measures must also be taken to improve the status of Haitians resident in the Dominican Republic. This could be accomplished by legalization of those working for a certain number of years, the establishment of a minimum wage, and the regulation of work conditions.[57]

Section Four

THE IMPACT ON LABOR EXPORTING COUNTRIES OF REDUCED FOREIGN DEMAND FOR WORKERS

There are a number of commonly held assumptions about the function of immigrant labor at times of reduced international demand. The assumptions led many policy-makers and researchers to expect a massive return of immigrants from labor-importing countries, such as Venezuela and Mexico. A differing set of assumptions and labor policies are called for in light of the fact that this massive return did not occur.

PREMISE: International migration is a permanent feature of our interdependent economies in the Hemisphere, rather than merely a result of a temporary increase in demand for labor that accompanies growth spurts of national economies. So-called temporary labor is often integrated into the ordinary operation of economies rather than being redundant labor added on at boom times and disgarded with contractions. Thus, massive return migration is not to be expected as an automatic response to economic recession and increased unemployment in traditional labor importing countries.

A. RESEARCH FINDINGS:

1. Despite dire predictions by government officials and researchers, massive return to Colombia did not occur in the wake of growing unemployment in Venezuela, the devaluation of the bolivar, and more restrictive immigration policies. The predicted return flow did not occur, in part, because immigrants are still needed in the sectors of the Venezuelan economy where they were initially recruited.

For example, the Venezuelan government's program of fiscal austerity and reduced imports revitalized the agricultural sector. Following this program, expanded agricultural production required a greater supply of immigrant labor.[58] A boom in international commerce inside the Venezuelan border, the result of devaluations of the bolivar, also attracted Colombian migrants. Furthermore, many Venezuelan employers in industry found the immigrants (especially undocumented) more desirable than native workers, because immigrants will accept below minimum wages.[59] This preferential hiring of immigrants has caused resentment on the part of Venezuelan workers.[60]

2. The actions taken by Venezuela--currency devaluations, trade protectionism, and immigration restrictions--may have helped the Venezuelan economy to rebound. In contrast, these measures had very direct, negative impacts on Colombia. They further hindered Colombia's recuperation from the international recession and immigrants were left with little or no incentive to return.[61]

Venezuelan trade protectionism and reduced market demand

for Colombian exports have led to many business failures in Colombian cities whose labor and commodities markets are closely linked to Venezuela. For example, in the Colombian migrant exporting city of Cucuta, approximately 600 commercial establishments have closed since 1984, as have 1,000 shoe and clothing factories. Some of the newly unemployed have sought financial relief by entering the already saturated informal sector in Colombia.[62]

3. Migrant exporting cities in Colombia are struggling with unprecedented rates of unemployment. For example, unemployment in Bucaramanga jumped from 6.4 percent in 1982 to 11.5 percent in 1985. In this case, the ranks of the unemployed were only further swelled by what return migration there was, as well as by persons who migrated internally to this border city in anticipation of future job opportunities in Venezuela.[63]

4. Increasingly in the 1980s, migrants come from the ranks of the unemployed, a feature almost non-existent in Colombian migration during the 1970s. At that time, employed persons with experience dominated the migrant stream, a usual feature of temporary migration.[64]

5. Pressures to recruit additional household members to relocate abroad have grown as local income-producing opportunities decline and the amount of remittances immigrants send to their families decreases as a result of devaluation and underemployment in Venezuela.[65]

6. Continued emigration is far more common from Colombian households with established social networks in Venezuela

than from households with only one absent member in Venezuela or no immigrant members. Return from Venezuela to Colombia, on the other hand, is most common among recent migrants with few or no ties in the host countries.[66]

7. A redirection of Colombian migration to increase the flows to the the United States and Canada is likely if the recession continues in Venezuela.[67]

8. If emigration were closed as an option for Colombians, the labor market and employment effects would be ominous. For example, to the 1,070,000 jobs Colombia must create over the next five years to meet employment needs for its growing population (under current rates of emigration and unemployment), an additional 340,000 new positions would have to be created if labor exports were curtailed.[68]

B. POLICY RECOMMENDATIONS:

1. Countries that are tied by international migration should formulate their immigration and labor policies on the basis of bi-lateral and multi-lateral consultation.[69]

2. To be successful, immigration reform must begin by targeting and redressing the root causes of labor migration rather than its symptoms. Such reform will require further research on the specific causes of labor migration in concrete situations followed by the implementation of pilot projects and development policies that are informed by this research.[70]

3. Labor importing countries should better enforce minimum

wage and fair labor standards laws for all workers, regardless of nationality. This will reduce the "competitive advantage" of illegal immigrants and help quell the resentment of native-born workers.[71]

4. Feasibility studies on border development should be commissioned in the cases of the U.S. and Mexico, Colombia and Venezuela, and the Southern Cone. Where appropriate, border development programs should be established to relieve unemployment pressures in those zones and to utilize current labor surpluses more productively.[72]

Section Five

RETURN MIGRATION

Policy-makers and researchers often under-emphasize return migration. The numbers of returnees can be significant, however, in both the cases of political emigres and labor migrants. Temporary migration that includes a large, circulatory component encompasses by definition, some returnees who are replaced by new entrants into the circulatory flow.

Government initiatives to promote the return of highly educated and skilled labor have been based upon incentives, employment generation projects, and programs to invest migrants' remittances and savings in productive enterprises. Few such initiatives have been implemented in Latin America, however, although research shows important manpower losses through emigration, as well as a growing dependency on migrant remittances by households and national economies. Remittances are treated as a special category here inasmuch as they precede return and

are the means by which emigrants retain contact with their home country.[73]

PREMISE: Migrant remittances, spontaneous return, and programs to attract emigrants and to channel their savings into employment creation efforts each have implications for the development of labor exporting countries in the Americas.

A. RESEARCH FINDINGS:

REMITTANCES

1. Remittances have become essential inputs in the budgets of many poor, urban and rural households in Latin America and the Caribbean. In the Colombian city of Cartagena, for example, households that receive remittances tend to be headed by females or elderly males and have fewer workers than other poor households. While the average amount of remittances these immigrant households received declined by 30 percent between 1982 and 1985, the average share of remittances in the overall household income increased from 7.2 percent in 1982 to 10.6 percent in 1985. This indicates an overall deterioration in locally available income sources due to economic recession.[74]

2. Foreign exchange benefits may also come with migration in the form of savings and remittances. For example, it is estimated that St. Kitts-Nevis received approximately U.S. $18.6 million in remittances during 1984. The magnitude of this contribution to the nation is clear when compared to the latest available (1982) Gross National Product total of U.S.$41.6 million.[75]

3. On the negative side, small countries and migrant communities may become overly dependent upon remittances. This over-dependence has been shown to have negative impacts on agricultural production in countries such as Mexico, the Dominican Republic, St. Kitts-Nevis, and Montserrat. Commonly, employers either cannot recruit a sufficient supply of laborers or absentee farmers take land out of production. Also, many households have abandoned farming as a livelihood choosing instead to live off remittance income.[76]

PERMANENCY OF RETURN

1. The concept of permanent return, the cornerstone of any repatriation accord, may not fit the reality of circular migration in much of Latin America and the Caribbean. This was one of the reasons a repatriation program between Bolivia and Argentina (1976) foundered. For most Bolivians, migration follows an on-going circular pattern and does not represent a permanent move in one direction or the other.[77]

2. Many return migrants to Argentina are dissatisfied with their social and economic reintegration- nearly one half expressed a desire to re emigrate. In one study one-fifth of the 220 migrants interviewed had not secured employment, a much higher unemployment rate than exists for the population at large. Forty percent of the returnees indicated that their current employment did not adequately reflect the experience and training they had acquired abroad, and the majority indicated that they had had better jobs outside of Argentina. A tendency to stigmatize exiles

was claimed by many returnees to be the cause of this downward mobility.

Nonetheless, most migrants did not choose to return for economic reasons. Rather, they were motivated by psycho-social factors linked to reestablishing their identities as Argentines. Here too, there has been disappointment. Many claimed to feel "invisible," excluded, ignored, or discriminated against.[78]

3. An evaluation of two Colombian government programs to facilitate the return of professional and technical personnel indicated that the more successful program recruited only those persons with skills known to be in demand. In the less selective program, many who returned had difficulty finding jobs, were forced to change professions upon return in order to earn more money, or encountered difficulty in adapting their training to the Colombian system.[79]

C. POLICY RECOMMENDATIONS:

1. Officials of development and assistance programs should include remittances and other income transfers received by migrant households in their evaluation of the credit worthiness of poor households.[80]

2. **Programs to expand the benefits of migrants' remittances and savings by channeling them into employment generating enterprises should be explored jointly by labor exporting and labor receiving governments and between them and international assistance agencies.**[81]

Corollary: Successful employment-generating projects will stimulate local employment and reduce migration pressures while attracting skilled migrants to return.[82]

3. Host country governments, businesses, and international agencies should encourage entrepreneurial efforts. This can be accomplished through workshops in management skills for migrants who plan to return and invest in employment creation projects. Entrepreneurial efforts can also be encouraged by the extension of initial loans or grants for projects in the country of origin.[83]

4. Policies should not encourage mass return, as this is likely to run counter to national interests and the interests of the migrants themselves. This is not to imply that policies should impede spontaneous return migration.[84]

5. As formal initiatives to promote return migration are costly and have met with uneven success, return incentive programs should be based on the cooperation of the host and home governments and should recruit candidates only when appropriate jobs have been located for them.[85]

6. To avoid resentment on the part of non-migrants, return incentive programs should emphasize their short-term nature, and the intention of easing a transition rather than of "rewarding" individuals who are perceived by others to be already privileged.[86]

7. In the case of political repatriation, there is a need to create public service programs aimed at molding a

positive national attitude toward returnees. It is also necessary to initiate reorientation and assistance programs for migrants prior to and following their return.[87]

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Afterwards

Research on refugees and labor migration is in the pioneer phase in many countries in Latin America and the Caribbean. The Hemispheric Migration Project has sought to stimulate research on these issues which are so crucial to the political and economic stability of the Americas.

In the future, the HMP intends to explore in greater depth several of the issues raised by the studies that form the basis for this report. For example, research will be commissioned to determine the sectors of the economy in asylum countries that have the greatest potential for absorbing refugees in ways that will lead to both self-sufficiency and national growth. The HMP will also study the conditions which promote reduction or growth in food production in regions of heavy outmigration in the Caribbean Basin.

NOTES

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APPENDIX I

Profile: Hemispheric Migration Project 1983-1985

A. The Hemispheric Migration Project is a joint research venture of the Intergovernmental Committee for Migration and the Center for Immigration Policy and Refugee Assistance of Georgetown University. The two-year project is funded by the Bureau for Refugee Programs of the U.S. Department of State. The purpose of the HMP is to study the causes and consequences of international migration for countries of origin in the Western Hemisphere.

B. The Hemispheric Migration Project sponsored 16 new studies as well as 5 State of the Art Reviews covering research on migration and refugees in the Americas.

The 16 studies are:

Central America

Farias, Osvaldo and Ana Teresa Garita. Demographic, Economic and Social Characteristics of Central American Immigrants by Country of Origin.

Herrera Eugenio, et al. (University for the Peace) Durable Solutions as a Means of Productive Integration of Central American Refugees: Nicaragua and Costa Rica.

Palacio, Joseph A. A Survey of Immigrants in Urban Communities in Belize.

Caribbean

Anderson, Patricia. The Manpower Effects of Out-migration from Jamaica.

Lozano, Wilfredo and Francisco Baez-Evertsz. International Migration and the Coffee Industry: A Study of Seasonal Migration of Haitian Workers in the Coffee Harvest in the Dominican Republic.

Mills, Frank. Determinants and Consequences of the Migration Culture of St. Kitts-Nevis.

Andean Region

Barrera, Cristina. Illegal Migration of Colombian Manpower to Venezuela, 1979-1985: The Case of Deported Workers.

Diaz, Luz Marina and Alcides Gomez. Economic Recession, International Labor Migration and Their Effects on the Colombia-Venezuela Border.

Reyes, Alvaro. The Effects of Net Colombian Emigration on the Colombian Labor Market.

Ungar Elisabeth and Helena Usceche Aldana. The Impact of the Venezuela Recession on Return Migration to Colombia: The Case of the Principal Labor Exporting Cities.

Urrea, Fernando. Socio-Economic Characteristics of Colombian Households Having Migrant Members Outside of the Country and Possible Effects of International Migration on Those Households.

Velez, Eduardo. Remittances, Family Networks, and Survival Strategies.

Southern Cone

Dandler, Jorge and Carmen Medeiros. Temporary Migration from Cochabamba to Argentina: Directions and Impact on the Place of Origin

Fortuna, Juan Carlos, and Nelly Niedworok. International Migration of Uruguayans in the Last Decade: Its Effects on the Labor Market and Some Models of the Impact of Return.

Maletta, Hector. Return Migration to Argentina: Economic and Psycho-social Problems.

Marshall, Adriana. Argentine Emigration: A Socio-Economic Profile of the Emigrant Stream Since 1970.

The State of the Arts Papers are:

Robert L. Bach, "Western Hemispheric Immigration to the United States: A Review of Selected Research Trends," March 1985.

Elsa M. Chaney, "Migration from the Caribbean Region: Determinants and Effects of Current Movements," March 1985.

Edelberto Torres-Rivas, "Report on the Condition of Central American Refugees and Migrants," July 1985.

Jorge Balan, "International Migration in the Southern Cone," October 1985.

Ramiro Cardona, "International Migration in the Andean Region," (forthcoming)

C. The Experts Review Group has served in an advisory capacity since the initiation of the HMP and was responsible for evaluation of the research proposals received. The members of the ERG include the following:

Vilmar Faria, Ph.D. (Brazil)	Thomas Merrick, Ph.D. (USA)
Charles Keely, Ph.D. (USA)	Gabriel Murillo (Colombia)
Lelio Marmora, Ph.D. (Argentina)	Alejandro Portes, Ph.D. (USA)
Dawn Marshall (Barbados)	Helen Safa, Ph.D. (USA)
Alan Simmons, Ph.D. (Canada)	

D. Our communication with the HMP researchers and other scholars working on international migration has been overseen by the following Regional Coordinators:

Caribbean--Elsa M. Chaney, Ph.D.
Central America--Edelberto Torres-Rivas
Andean Region--Ramiro Cardona
Southern Cone--Jorge Balan, Ph.D.

REFUGEE PROJECT

Senator KASTEN. Let me ask you a couple of questions. You have kept the cost of the program down?

Father BRADLEY. Yes.

Senator KASTEN. I have other questions, and then I will defer to Senator Johnston.

Regarding the refugee project, you submitted a proposal suggesting that you do that project directly rather than through the Intergovernmental Committee on Migration and Refugees, or Immigration and Emigration in Genèva. Has the State Department responded positively to you?

Was that sufficient to get accomplished what we wanted to accomplish?

Father BRADLEY. They responded personally to us and they told us that they have asked you and the other appropriate people for reprogramming of the funds for that.

Senator KASTEN. Generally, is that the way it was intended to take place in relation to the State Department?

Father BRADLEY. Yes, sir. We came here with nothing but good news, Senator.

Senator KASTEN. With all that good news, I will ask Senator Johnston if he would like to ask a question, or to make a statement.

Senator JOHNSTON. Mr. Chairman, I have no statement to make. I came here to welcome Father Bradley and Father George to the committee. I am always glad to see them here. If it is a grant to Georgetown, I am for it. Seriously, Georgetown is really at the very top on my list for all the good work it does, and I know that you are doing good work in this area. I just wanted to welcome you to the committee.

Senator KASTEN. We look forward to working with you. We are pleased with our working relationship.

Our next witness is Dr. Rouse Caffey.

NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

STATEMENT OF DR. ROUSE CAFFEY ON BEHALF OF THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

INTERNATIONAL AGRICULTURAL PROGRAMS

Dr. CAFFEY. Thank you, Mr. Chairman, and Senator Johnston, for the opportunity to be here. My name is Rouse Caffey, and I am Chancellor of LSU Agricultural Center, and I am testifying on behalf of the National Association of State Universities and Land-Grant Colleges, because of my personal involvement in international agriculture.

Basically, I have some current concerns about the serious reductions that took place in the section 103 part of the AID budget, which has caused a reduction in the agricultural part of the total AID programs and, therefore, the impact that this has had on plant and animal protection technology, and the extension personnel who are needed on a worldwide basis to interact and serve our commodity groups, and market development for U.S. agricultural exports which has been an end result of agricultural technical assistance programs, and our continued involvement in these programs with AID.

REDUCTION IN AGRICULTURAL PROGRAMS

Basically, there are five areas in these reductions that I would speak to. First of all, the reductions in section 103, the Agriculture, Rural Development, and Nutrition, there are probably a lot of reasons why, one could conjecture, that have caused these reductions, maybe the plight of the farmers, the lack of constituency groups, and a number of others, but I submit that perhaps these are not sufficient, because there are some things that are not spoken well in the world as far as the reductions there.

Second, there is a disproportionate reduction within the AID budget. We understand the need for balancing budgets, and spending money wisely, but the food and nutrition account in fiscal year 1986 versus 1985 was reduced by about 24 percent, with a total budget reduction of 11 percent. We feel that perhaps this may not be exactly the way we would want it, or you would want it.

The third point is the involvement of U.S. universities in AID projects, which was reduced by 18 percent, a little bit more than the reduc-

tion in the Agency-wide Agriculture, Rural Development, and Nutrition account. We have talked to Administrator McPherson about that.

The fourth point is the decision at this point in time to support the international agricultural research centers at 25 percent of their budgets in periods of declining appropriations means that the funding must be sought from other sources, in this case affecting the university-supported CRSP's. We think that this is perhaps not the best program for various reasons.

The fifth point has to do with the elimination of the Foreign Currency Research Program. This program, which permits USDA, through its Office of International Cooperation and Development, to use U.S.-owned foreign currencies to support cooperative agricultural and forestry research on problems of interest to the United States and participating foreign countries, is important to international agricultural programs. The Foreign Currency Research consists of agricultural research projects with a high level of interaction between scientists. It does not involve appropriated funds and should be continued in fiscal year 1987. If it is reauthorized, I think that it would help the AID programs significantly.

SECTION 103 PROGRAM

As far as the section 103 is concerned, I believe there is mutuality of benefits, certainly the scientific exchange which we gather on a worldwide basis. It also translates into two areas which I feel are rather important, germplasm and plant protection impact, and the fact that we can go and involve our rice in Louisiana with 60 percent of those that have dwarfing genes in Asia. We can go to Peru and look at resistance to some of the potato diseases.

MARKET DEVELOPMENT

Market development, that is important to all of us. Market development has increased as a result of the improved economies of Third World countries. We believe that there are some reasons why one should be involved, why the universities should be involved in this.

I would like to sum this up by reading—I will leave the three names out because I would not the commodities mentioned. I have a bulletin, which I refer to in the testimony, "To maintain markets, and keep the U.S. industry competitive as an economic condition to improve trade."

In summary, I support the concept of adequate funding for the Agricultural, Rural Development, and Nutrition programs of the AID and, if reductions are necessary, that disproportionate budget reductions in the Agricultural, Rural Development, and Nutrition funding be strongly discouraged. I further support the concept of involving title XII universities in many AID programs for which universities would appear to have a comparative advantage; both from the viewpoint of helping to accomplish the national goals and for the direct and indirect benefits which accrue to agricultural technology and trade benefiting U.S. agriculture.

[The prepared statement of Dr. Caffey follows:]

Testimony of Dr. H. Rouse Caffey, Chancellor,
Louisiana State University Agricultural Center,
Before the Senate Subcommittee on Foreign Operations,
Senate Appropriations Committee,
United States Senate
Washington, D. C.

April 17, 1986

I am H. Rouse Caffey, Chancellor, Louisiana State University Agricultural Center, Baton Rouge, Louisiana, and am testifying as the witness from the National Association of State Universities and Land-Grant Colleges (NASULGC). My concerns for the budgets of the Agency for International Development (AID) are related to my long, personal involvement in international agriculture as a consultant; membership on the NASULGC Joint Budget Committee for International Agriculture; National Co-Chairman of the International Science and Education Council; and my administrative responsibilities at the Louisiana State University Agricultural Center involving an active office of International Agriculture.

Basically, my concerns are these: (1) the serious funding reductions in the USAID budget, Section 103: Agriculture, Rural Development, and Nutrition, resulting in a reduction of international agricultural programs by reducing funding for operational expenses, personal services, scientific exchanges, and participant training between the United States and third world countries; (2) the impact which this has on the U.S. benefits of these programs, especially as it concerns germplasm material and plant and animal protection technology essential to broaden genetic diversity in U.S. plant and animal commodities; and (3) market development for U.S. agricultural exports which has been an end result of agricultural technical assistance programs.

A. Budget Reductions and Reallocations in USAID Funds.

1. Drastic reductions in AID 103 account (Agriculture, Rural Development, and Nutrition). This account was significantly reduced in FY86 from FY85, and faces the possibility of further reductions in FY87. The 11.4 percent reduction may have been rationalized by publicity of the plight of U.S. farmers and the competition of third world countries; by the lack of concern, or lack of an identified support group of clientele for the AID 103 account; or by the substitution of increased levels of competitive support for other FY86 AID budget levels, such as the Agency's Child Survival Program. These reasons, in my opinion, were not sufficient to mandate the drastic reductions.

2. Disproportionate reductions within USAID in FY86. There was a much higher cut in FY86 from FY85 in the Food and Nutrition account for the Bureau of Science and Technology (24 percent) compared to the total cut for the Agency (11 percent). Apparently Congress determined that the support of Country Mission Programs was more important than programs funded by the Bureau of Science and Technology. This did not lend itself to the greatest involvement of U.S. based grantees and contractors. AID's Country Programs de-emphasize strengthening indigenous agricultural institutions, and emphasizes capital transfers, LDC budgetary sector support, agricultural production programs, physical infrastructure, etc.

It further restricts needed new programs such as Research and Technical fellowships that could involve younger scientists to become involved in international programs and policy.

3. Reductions from FY85 to FY86 for Involvement of U.S. Universities in AID Projects. The participation of U.S. Title XII universities was reduced approximately 18 percent, a greater reduction than the Agency-wide Agriculture, Rural Development, and Nutrition account. This resulted in a recent letter from the Chairman of the Board for International Food and Agricultural Development (BIFAD) to Administrator McPherson, AID, stating that "Many people are gaining the impression that the Agency does not seem to be utilizing the resources of Title XII institutions in many programs for which universities would seem to have a comparative advantage."

4. Comparative cuts from FY85 to FY86 for the Title XII Collaborative Research Support Programs (CRSP's) and the International Agricultural Research Centers (IARCS). The commitment to support international centers at 25 percent of their budgets in periods of declining appropriations means that funding must be sought from other sources, in this case affecting the university-supported CRSP's. U.S. universities have determined the need for involvement in international agriculture, and the mutual needs and flow of information, technology and germplasm that is vital in developing countries and the U.S.

Because of a matching requirement, international science and education is supported and funded at the state or university level as well as federal funding through USAID. In fact, universities contribute 25 percent of the cost of these programs. The CSRD's also give U.S. visability to the science and education achievements, whereas U.S. sponsorship is often masked at the international centers level. I believe the discrepancy in reducing funding for CSRP's, while maintaining current levels of funding for international agricultural research centers (IARC's), is not the best management decision.

5. Elimination of the Foreign Currency Research Program. This program, which permits USDA through its Office of International Cooperation and Development (OICD) to use U.S.-owned foreign currencies to support cooperative agricultural and forestry research on problems of interest to the U.S. and participating foreign countries, is important to international agricultural programs. The Foreign Currency Research (FCR) consists of agricultural research projects with a high level of interaction between scientists. It does not involve appropriated funds and should be continued in FY87. I strongly believe that it should be re-authorized.

6. Summary of USAID Section 103: Agriculture, Rural Development, and Nutrition. Agricultural development is essential for economic development in third world countries, just as agriculture is a primary mission in the U.S. economy. It is also an important part of our international assistance for economic, security, trade, and humanitarian reasons. It is also a fact that U.S. agriculture is significantly impacted by foreign agriculture and that important relationship exists with agriculture in other nations. And, it is not all negative; there is a mutuality of benefits. Two of those benefits to U.S. agriculture are addressed in the next two sections "B" and "C".

Therefore, I am supportive of reducing the further erosion of funding for the AID Agricultural, Rural Development, and Nutrition programs. I do not subscribe to the belief that U.S. technical assistance to third world countries is necessarily harmful

to U.S. agriculture. We do receive benefits from this involvement which are applied directly back to U.S. research technology as well as trade development.

B. Germplasm and Plant Protection Impact.

The International Science and Education Council has five standing committees. One of these, the International Research Committee, is charged with expanding cooperative research with nations abroad; identifying research opportunities of mutual need and recommending mechanisms for planning and implementing joint research programs; enhancing scientific cooperation in international agricultural research when mutually advantageous; and developing linkages by team visits and scientific exchanges.

A very beneficial result to U.S. agriculture from these efforts, and the research programs associated with USAID technical assistance programs, is the discovery and availability of new germplasm for plant and animal commodities. Third world countries have provided sources of genetic material to improve essentially every major U.S. crop. Genes for resistance to insects and diseases, dwarf stature, high yielding varieties, and many others have been identified from third world countries. For example, most of our U.S. rice varieties contain germplasm recently obtained from Asia, resulting in new varieties with high yielding potential. Dwarfing genes from Asia has been incorporated into approximately 60 percent of our wheat and rice varieties. Resistance genes for wheat rust came from Kenya; nematode resistance in potatoes from Peru; resistance to soybean mosaic from Korea; resistance to corn left blights, corn rust, and maize dwarf virus from tropical Central and South America are just a few examples of benefits to U.S. agriculture.

Because of the very narrow genetic base of most U.S. crops, research teams are often sponsored by the commodity groups to visit foreign countries in search of new germplasm. An example of this in Louisiana is sugarcane. Researchers have been sent to Indonesia and other parts of the world to seek sources of genetic material to be incorporated into a breeding program. Again, in Louisiana we have sought this same information in rice by seeking resistance to hoja blanca in the late 50's and early 60's. We have also used our international programs to obtain technological information on bacterial and virus diseases of rice not yet of economic importance in Louisiana, but which has the potential of destroying a crop if they become established in the rice growing area. We are also searching for data from third world countries concerning sugarcane smut, a disease of recent economic importance in Louisiana. The migration habits of insect pests between Central America continues and Louisiana also demands the efforts of our entomologists. Technical assistance programs help us achieve these goals more easily.

For several years, the LSU Agricultural Center has actively encouraged our scientists to visit foreign national research centers to aid us in developing better plant breeding programs through utilizing superior germplasm and to learn plant protection technology by identifying insect and disease resistant cultivars. Technical assistance programs sponsored by USAID provide a mechanism where this can easily be accomplished, thereby greatly benefitting U.S. agriculture.

C. Market Development Resulting from Technical Assistance Programs.

It has been my experience that U.S. market development for export of U.S. agricultural commodities has been enhanced as a result of third world technical assistance programs. Developing countries are

the most rapidly growing customers for U.S. agricultural products. Records reveal that their U.S. agricultural imports from 1965-80 increased 2.8 times compared to 1.85 times for more developed countries. In 1983, these countries accounted for the import of approximately 50 percent of the total U.S. export of cereals and feed grains.

They are not our major competitors and they are becoming our important customers, especially when their economic situation is improved. They have the great majority of the world's population. The greatest annual population increases occur in low income countries. The developing countries continue to be the best potential growth markets for U.S. agricultural exports. By achieving economic growth resulting in increased per capita income and foreign exchange availability, they consume more and better foods and can afford to buy our agricultural exports. Technical assistance, therefore, has played an important role in developing countries by enhancing their potential as purchasers of U.S. agricultural exports. Countries such as Korea and Taiwan are examples of how former agricultural technical assistance is important to U.S. trade interests.

In 1983, U.S. agricultural exports were 49 percent of the gross national product of the farm sector. Over the past several years, these exports have increasingly gone to developing countries. The proportion of U.S. agricultural exports going to these countries increased from 30 percent in 1976 to 46 percent in 1982. Developing countries are among the most promising growth markets for U.S. agricultural exports. Therefore, it is understandable that our farmers are concerned about any action, such as technical assistance, which might reduce the growth of exports to the developing countries. However, the recent decline in U.S. agricultural exports has probably been influenced more by (1) the exchange rate of foreign currencies in relation to the dollar, (2) U.S. domestic agricultural policies, and (3) reduced economic growth worldwide, rather than by increased agricultural production in developing countries attributed to U.S. universities and AID collaboration.

The involvement of USAID and universities in the economic development of third world countries through agricultural development requires a long-term investment. Agricultural development is the lead sector and principal reason for economic improvement of the LCD's. The strengthening of LDC institutions, national agricultural research systems, and adapted technology transfer systems through technical assistance programs results in economic improvement of the LCD's potential for purchasing U.S. agricultural products.

The interpersonal relationships of U.S. personnel and their counterparts, developed through both long-term and short-term visits, lead to market development. Frequently many foreign students who return to their countries, and who later assume national leadership positions, refer to contacts they established in the U.S. as sources of potential trade and market development. These many opportunities for interaction in international agricultural programs often result in trade development.

Many U.S. commodity groups recognize that international markets are essential for our agricultural production. An example of one of these groups is the Rice Council for Market Development, Houston, Texas, which serves the U.S. rice industry. Quoting from their 1984-85 Promotion and Advertising publication, Foreign Marketing section, the following states their overview:

"Working in cooperation with the Foreign Agricultural Service of USDA, the Rice Council for Market Development combines rice industry dollars with funds from the USDA to develop markets overseas. With only two percent of the world's rice acreage, the United States is one of the world's largest exporters of rice, even though it ranks 12th in production.

The Rice Council has built an outstanding international reputation and a valuable worldwide network of trade contacts based on a history of aggressive and successful foreign market development programs. Presently, the Council conducts programs in all regions of the world.

Regardless of economic and cultural conditions which require individually tailored programs for each country, the Council conducts strong promotional programs and consequently holds a significant market share in those areas."

That same publication, referring to Rice Council activities in Africa, states the following:

"Currently, there are many obstacles that restrict rice promotion activities in this part of the world. There are over 50 countries, each with several different subcultures and characteristics in the market place. Language differnces, a high level of illiteracy, poor distribution facilities and unstable economic and political situations inhibit the growth of imports in many of these countries. Large movements of people from agricultural areas to urban centers continue to strain the ability of African countries to produce enough food--especially rice.

Despite adverse economic and cultural conditions, American rice continues to be recognized as the hallmark of quality. To maintain markets under these adverse conditions, Rice Council activities continue to promote U.S. rice as a quality product and the U.S. rice industry as a reliable supplier. Close contact with key trade and government officials is maintained to improve trade relations and to inform these officials of various credit and financing programs available from the United States.

As economic conditions improve, consumer demand for high quality U.S. rice is expected to increase dramatically."

Those last three sentences of the Rice Council report quoted

above reflect the observations of many others, including this author.

D. Summary

I support the concept of adequate funding for the Agriculture, Rural Development, and Nutrition (Section 103) programs of the Agency for International Development and, if reductions are necessary, that disproportionate budget reductions in the ARDN funding be strongly discouraged. I further support the concept of involving Title XII universities in many AID programs for which universities would appear to have a comparative advantage; both from the viewpont of helping to accomplish the national goals and for the direct and indirect benefits which accrue to agricultural technology and trade benefiting U.S. agriculture.

HOUSE/SENATE DIFFERENCES ON FISCAL YEAR 1986 FUNDING

Senator KASTEN. First of all, let me say that we have enjoyed working with your organization. We have had the pleasure of working with Lee Walsh from the University of Wisconsin. I guess we decided that the folks from Louisiana are a little more important this year, and we are happy to have you testify here.

Before I turn to Senator Johnston, I want you to understand that statement should also be made before the House subcommittee, because we, on our side, have been listening to you more carefully than they have. If you look at the numbers, they ended up going way low last year, and as a result of that, we negotiated back and forth to bring those numbers up. I am hopeful that there won't be such a wide difference between the House and the Senate. It seems to me that the House should be supportive of your programs as aggressively as we have been.

I am just hopeful that we don't repeat what we did last year, with the House number coming in at, in this case, $679 million. It was way low, and it makes it harder for us to work it through. I just hope very much that you are going to be working on bo[illegible] of the Capitol this time, and we won't have that wide, wide differ

Senator Johnston.

Senator JOHNSTON. Thank you, Mr. Chairman.

Rouse, welcome to the committee.

Mr. CAFFEY. Thank you.

Senator JOHNSTON. Mr. Chairman, I really do think that this is an important program, and I think it is for several reasons. The simple network of farm students in our schools, and ours in theirs is sort of a cross-pollenization that extends beyond agriculture, and I think is important for its own sake.

SEED DEVELOPMENT IN THIRD WORLD COUNTRIES

On the question of the agricultural spinoff of this, this is really one of the hottest issues, but there was a TV program on Public TV the other night, I don't know whether you saw it, called, "Seeds for the Future," and it talked about the loss of viability of some of our strains, and that we are going to have to go to the Third World, and zero in on some kind of corn that was found in Mexico that is more hardy.

So what they are really doing is finding for the United States, and making available to Third World countries new strains of seeds which are really the hope of the future. It is very vitally important, I think. It is not all they do, but that is one of the very important things that they do.

While I know how strapped we are for funds, I would hope that we can do well, and that the House can do equally well. I hope that you will make a strong case over there, Rouse, as you have here, because I think it is a story that needs to be told. I hope, frankly, that we will be able to fund you at last year's level. I don't know if it is possible or not, but I hope we can, and I hope that the House can maintain that.

Thank you.

Mr. CAFFEY. Thank you very much.

Senator KASTEN. Thank you very much for being here.

Our next witness is Mr. Michael Rothfeld representing the United States Defense Committee.

U.S. DEFENSE COMMITTEE

STATEMENT OF MICHAEL ROTHFELD, UNITED STATES DEFENSE COMMITTEE

DEFENSE OF U.S. NATIONAL SECURITY

Mr. ROTHFELD. I thank you for permitting me to testify before this committee.

My name is Mike Rothfeld, and I am Director of Research of the United States Defense Committee. The U.S. Defense Committee is a public interest organization dedicated to a strong national defense and foreign policy.

We are an organization of over 134,000 Americans from all walks of life, machinists, farmers, small entrepreneurs, doctors, lawyers, active and retired service personnel. What binds all of these people together is a commitment to preserve and defend our national security.

As an organization, the U.S. Defense Committee believes that American taxpayers' money should be spent to further, certainly not hinder, the U.S. national interests. This is as true for money spent on domestic agencies as it is for bilateral aid and contributions to multilateral organizations. The fact is, in many cases, this criterion is not met.

My full testimony focuses upon three points: the need for increased military aid to Central America, the misspending of American bilateral aid in countries such as India, Greece, and Mozambique, and the funding of anti-American radicals at the United Nations. In my remarks here today, I will focus only upon the last.

U.N. OPPOSITION TO U.S. ACTIONS

I am convinced that the American people are tired of paying one-quarter of the U.N. budget, over $1 billion in 1984, only to be the target of anti-American abuse. This growing anger of the American people is exacerbated by the fact that while the Soviet Union paid only $156 million in 1984, it is well over $100 million in arrears, and it has three votes in the U.N. General Assembly, while the United States has only one vote.

I, therefore, urge this committee to carefully examine the activities of the United Nations, and move to make major cuts in the U.S. funding of the United Nations. Too many times in the past has American goodwill and taxpayers' money been used to humiliate the United States and to work against the national interest.

Barely 1 week after the U.S. liberation of Grenada, the United Nations voted 108 to 9 to "deeply deplore" the U.S. action. In fact, the United States was not even permitted to make a statement before the vote. However, after 6 years, the United Nations has yet to condemn the Soviet Union by name for its brutal invasion and occupation of Afghanistan.

U.S. FUNDS TO COMMUNIST CLIENT STATES

U.N. money, one-quarter of which comes from American taxpayers, is given yearly to Communist Soviet client states, such as North Korea, Nicaragua, Cuba, and Vietnam, and terrorist organizations such as SWAPO, ANC, and the PLO.

Over the years 1981 to 1984, one U.N. agency sent over $13 million to North Korea, $7 million to Nicaragua, and $17 million to Laos. During the same period, this agency sent $2.4 million to SWAPO, $2.9 million to ANC, and nearly $10 million to Cuba, thereby directly aiding the Soviet plan to gain control of all Southern Africa and threaten the NATO allies with economic strangulation.

In 1 year alone, more than $7 million was sent to the corrupt regime in Afghanistan, a regime put and kept in place by over 100,000 Soviet troops. In December 1984, over U.S. objections, the U.N. General Assembly approved $73.5 million for renovation of a U.N. conference center in Ethiopia, even as millions of Ethiopians were starving.

However, the most outrageous use of U.N. funds is probably the money used to support the PLO. The United Nations Relief Works Agency budgets over $200 million each year for Palestinian refugee camps.

Former Ambassador to the U.N., Jeane Kirkpatrick, in testimony before the Senate Committee on Governmental Affairs, stated that the funds spent by the UNRWA and the Committee on Palestinian Rights are just as available to Yasser Araffat as if they were simply transferred to him by bank draft.

Even generally respected agencies are not free from this radical taint. The Executive Board of United Nations International Children's Emergency Fund is dominated by a majority which, according to a Heritage Foundation study, "favors the ideology of the so-called New

International Economic Order and opposes free market." UNICEF's bias is evident in their lopsided expenditures in Africa and Communist Indochina compared with Central and South America.

This is not surprising when one considers that the Socialist dictatorships and Communist regimes of Africa and Southeast Asia are naturally more in accord with the radical views of UNICEF's majority than are the generally pro-Western governments in Central and South America.

The refugee camps run by the United Nations High Commission on Refugees in Honduras along the border with El Salvador are reported to have become little more than safe areas for Salvadoran guerrillas seeking a respite from military action.

SOVIET SPY NETWORK

Not only is American taxpayer money going directly and indirectly to U.S. enemies abroad, but it is supporting spies in the United States—spies that are protected by diplomatic immunity. The Soviet Union has more than 300 U.N. diplomats and nearly 350 U.N. Secretariat employees in New York City. According to Arkady Shevchenko, a former high ranking diplomat for the Soviets, at least one-third of the 650 Soviets at the United Nations work directly for Soviet espionage agencies.

Soviet agencies target U.S. businesses and researchers that operate at the cutting edge of high technology. By stealing this technology, the Soviets have managed in the past, and hope in the future, to upgrade their massive military arsenal forcing the United States and its allies to pump billions of dollars more into their own defense programs.

Unbelievably, U.S. taxpayer dollars actually go to the Soviet Union. According to U.N. rules, U.N. Secretariat employees are international civil servants employed directly by and with the United Nations. However, Soviet nationals working for the U.N. civil service are required to turn over their U.N. pay, which can be as high as $90,000 per year higher than Soviet pay, to the Soviet Union. This practice nets the Soviet government about $20 million per year.

There seems to be no end to the abuses perpetrated by the radicals at the United Nations on the United States and its allies. For example, the periodic condemnation of Israel and other pro-American governments; the Soviet administered U.N. External Relations Division which, through its Department of Public Information, has never referred to the Soviet destruction of KAL 007; and the drafting of a treaty declaring the Moon international property and creating a U.N. agency, the Outer Space Committee, to administer the territory.

Senator KASTEN. I am going to have to ask you to summarize your statement. I hate to do this, but I am worried about an hour from now, when someone is going to say, but you let these other people go longer.

I very much appreciate everyone who is here to testify, but we are simply trapped by the circumstances, and I would ask you to summarize your statement.

Mr. ROTHFELD. As long as the Soviet Union retains three votes in the U.N. General Assembly, I urge this committee, in the strongest possible terms, to appropriate no more than one-third of the amount of Soviet assessed contributions.

[The prepared statement of Mr. Rothfeld follows:]

UNITED STATES
DEFENSE COMMITTEE

Henry L. Walther
President

Statement By

Michael I. Rothfeld
Director of Research

Mr. Chairman:

My name is Michael I. Rothfeld and I am Director of Research of the United States Defense Committee.

The United States Defense Committee is a public interest organization dedicated to a strong national defense and foreign policy.

We are an organization of over 134,000 Americans from all walks of life; machinists, farmers, small entrepreneurs, doctors, lawyers, active and retired service personnel.

What binds all these people together is a commitment to preserve and defend our national security.

As an organization, the United States Defense Committee believes that American taxpayer money should be spent to further, and certainly not hinder, the U.S. national interest.

This is as true for money spent on domestic agencies as it is for bilateral aid and contributions to multilateral organizations.

The fact is that, in many cases, this criterion is not met.

In my remarks today, I will focus upon three points; the need for increased military aid to Central America, the misspending of American bilateral aid in countries like India and Greece, and the funding of anti-American radicals at the United Nations.

I urge this committee, in the strongest possible terms, to carefully weigh U.S. interest when doling out American taxpayers' dollars to foreign governments and international institutions.

Nowhere is U.S. interest more clear, and can U.S. dollars be more effective than in Central America.

There is in Central America a clear and definite threat; that is, the Soviet-armed, Communist regime in Nicaragua.

I intend to briefly expand upon the reality of the Sandinista threat. Following that, I will outline the catastrophic results should the Communist threat in Central America achieve further victories. A catastrophe not only to Central America but for the United States as well.

After I have presented these points, I believe that the Committee will agree that increased support for anti-Communist forces in Central America is vital to U.S. national security.

There can be no doubt that Soviet-armed and Cuban-trained Sandinistas intend to export their Communist revolution throughout Central America.

The Sandinistas have repeatedly stated their intention to spread a "revolution without borders" and have announced their intention to build a 250,000 man army.

Already, the Sandinistas have 120,000 men under arms, backed by over $600 million in Soviet weapons and some 10,000 "advisors" from Cuba, East Germany, Bulgaria and North Korea.

This force is larger than the armed forces of neighboring Honduras, El Salvador, Costa Rica and Guatemala combined.

The Sandinistas' contempt for the sovereignty of their neighbors was illustrated three weeks ago when hundreds of Sandinista soldiers poured across the Honduran border.

And for years the Sandinistas have been a conduit for supplies going to, and a safe haven for guerrillas coming from, El Salvador.

The Sandinista junta must not be permitted to export revolution to the rest of Central America and Mexico.

The spread of Soviet-armed Communism promises not only oppression and poverty in Central America and Mexico, but a tidal wave of refugees fleeing to the U.S.

According to a congressional briefing paper prepared by H. Eugene Douglas, U.S. Coordinator for Refugee Affairs, if Central America and Mexico fall more than nine million refugees can be expected to flood into the U.S. At an average annual cost of $4,500 per refugee, this would cost over $40 billion per year.

In addition, a Communist Mexico could station a million hostile troops along the U.S./Mexican border. The cost of fortifying and garrisoning the U.S. southern border would be an extra $50 billion a year.

Geographically, Central America and the Caribbean border strategically vital maritime passages.

Through these choke points travel nearly two-thirds of America's foreign trade and one-half of America's petroleum.

Ninety-seven percent of the manganese, ninety-three percent of the bauxite and seventy-six percent of the nickel -- minerals essential to America's aerospace and communications industries -- pass through these waters.

And in a European crisis, at least half our supplies for NATO would be shipped via these "choke points".

If these sea lanes were to be shut down by anti-American forces -- and it is in this light that the liberation of Grenada is so important -- the U.S. would not be able to meet its needs at home nor its commitments abroad.

Clearly, maximum military aid for the pro-American Contras is a necessary link in U.S. national security.

It is, however, only half the equation.

Vital to this overall plan are the Administration's military aid requests for El Salvador, Honduras, Costa Rica and Guatemala.

Frankly, any private investment or economic aid sent to Central America would be pouring money down a rathole unless a security shield is provided and the military situation is resolved.

Tragically, America has been doing just enough in Central America not to lose but not enough to win.

For example, General John Vessey, former Chairman of the Joint Chiefs of Staff, stated in 1984 that in prior years Congress had appropriated for El Salvador only one-fourth of what the U.S. should have spent to defend against Communist aggression.

In recent years the U.S. has stood by and watched while the Communists established control over Surname, Nicaragua and Guyana.

Decisive action is needed now in the Central American theatre. This was proved by Grenada.

Congress must be committed to the reestablishment of the Monroe Doctrine and to full military funding as the cornerstone of America's Latin American policy.

In fact, hundreds of millions of taxpayers' dollars are misspent around the world.

Even as pro-American regimes in Latin America are begging for the bare minimum of aid, the U.S. is generously funding regimes that actively oppose the U.S.

For example, while pro-American Chile -- with a free

market and open opposition press -- received just $23 million in aid from 1981 - 1984, the Communist government of Mozambique -- whose army is trained by North Koreans and East Germans, keeps tens of thousands in so-called "reeducation camps" and has devastated its economy subjecting millions to famine -- received over $37 million in the same period.

India received over $900 million in aid from 1981 - 1984, the majority of which was in grants.

While looking to the West for technology and trade, Indian Prime Minister Rajiv Gandhi looks to the Soviet Union for military equipment and actively promotes their anti-American line.

Less than one year ago, Gandhi concluded a two day visit to Moscow by backing Soviet opposition to President Reagan's SDI program and criticizing U.S. policy in Nicaragua. Naturally, Gandhi has made no such statements in regard to the Soviets in Afghanistan.

The Indian military, which has fought three wars against pro-American Pakistan since 1947, receives some 80% of its weapons from the Soviets and was the first country to be sold the advanced MiG-29 fighter aircraft -- before even Warsaw Pact countries.

It is hard to see the advantage in sending hundreds of millions of dollars to a country which, while proclaiming itself "nonaligned", actively supports Soviet foreign policy and is militarily dependent upon Soviet aid.

Similarly, it might well be time to reconsider the

one-half billion dollars a year in military aid given to the anti-American, socialist government of Andreas Papandreou in Greece.

Papandreou's rhetorical affronts are well known: He has referred to Israel as a "Nazi-state"; taken up the Soviet line that KAL 007, brutally shot down with over 200 aboard by the Soviets, was a spy plane; has lauded Polish dictator Jaruzelski as a great leader; and repeatedly has stated his intention to close U.S. bases and pull Greece out of NATO.

As a NATO ally, Papandreou leaves a lot to be desired.

Greek armed forces are massed along the Greek-Turkish border, positioned in order to fight the Turks rather than the Soviets.

In addition, Papandreou has refused to participate in NATO exercises in the Aegean Sea, using as an excuse the charge that NATO forces favor Turkey.

As long as U.S. bases are on Greek soil and Greece remains a member of NATO, some military assistance is probably in order.

However, should the bases' leases not be renewed in 1988 or should Greece withdraw from NATO, the U.S. should immediately halt all aid.

In fact, a sharp reduction in U.S. aid this year would be an effective prod toward greater Greek cooperation in this strategic region.

Other countries can be singled out. Generous grants to the corrupt, Socialist regime in Burma and to the Soviet-aligned state in Zimbabwe come to mind.

It is an outrage that Central American states bleed on the front ~~line~~ of Soviet supported insurgencies, even as many richer nations pocket U.S. taxpayers' dollars while blasting American policies and America itself.

U.S. bilateral aid is, all too often, a mish-mash of misplaced priorities.

But as questionable as are the priorities of the U.S. bilateral aid program the multilateral aid program is in even worse shape.

And virtually nowhere are U.S. dollars more clearly misspent than on the United Nations.

While the United Nations was founded upon the highest hopes of the post-war era, it has deteriorated to a place where U.S. actions and allies are denounced, our enemies funded and our shores legally infiltrated by hundreds of Soviet-bloc intelligence agents.

I am convinced that the American people are tired of paying one-quarter of the U.N. budget, over $1 billion in 1984, only to be the target of anti-American abuse.

The growing anger of the American people is exacerbated by the fact that the Soviet Union paid only $156 million to the U.N. in 1984 and is well over $100 million in arrears.

Meanwhile the Soviet Union has three votes in the U.N. General Assembly, (one for Byelorussia, one for the Ukraine and one for the Soviet Union proper) while the United States has only one vote.

I urge this Committee to carefully examine the activities of the United Nations and move to make major cuts in U.S. funding of the United Nations.

I am convinced that in careful examination of the record you will agree that only by making major cuts in U.S. funding might it be possible to effect any meaningful reform in the U.N.

Only by making cuts in U.S. funding can the anti-American radicals be put on notice that their actions will no longer be tolerated.

Too many times in the past has American goodwill and taxpayers' money been used to humiliate the U.S. and to work against the national interest.

Barely one week after the U.S. liberation of Grenada, the U.N. voted 108-9 to "deeply deplore" the U.S. action.

In fact, the U.S. was not even permitted to make a statement before the vote.

However, after six years the U.N. has yet to condemn the Soviet Union by name for its brutal invasion and occupation of Afghanistan.

The Soviet Union's three votes, coupled with those of the

Communist East-bloc and Third World dictatorships, form a majority in the U.N., allowing the anti-American line to pass nearly every time.

In addition, this majority votes to give U.N. money -- one-quarter of which comes from American taxpayers -- to Communist, Soviet client states such as North Korea, Nicaragua, Cuba and Vietnam and terrorist organizations like SWAPO, ANC, and the PLO.

Over the years 1981 to 1984, one U.N. agency sent over $13 million to North Korea, $7 million to Nicaragua and $17 million to Laos.

During the same period, this agency sent $2.4 million to SWAPO, $2.9 million to ANC and nearly $10 million to Cuba; thereby directly aiding the Soviet plan to gain control of all Southern Africa and threaten the NATO allies with economic strangulation.

In one year alone, more than $7 million was sent to the corrupt regime in Afghanistan, a regime put and kept in place by over 100,000 Soviet troops.

In December 1984, over U.S. objections, the U.N. General Assembly approved $73.5 million for the renovation of a U.N. conference center in Ethiopia, even as millions of Ethiopians were starving.

Millions and millions more have been spent in Soviet-occupied Eastern Europe on things like a motorway connecting the Soviet-bloc nations, the strengthening of iron and steel industries, and the development of nuclear technology.

The most outrageous use of U.N. funds is probably the money used to support the PLO.

The United Nations Relief Works Agency (UNRWA) budgets over $200 million each year for Palestinian "refugee camps".

According to Edward Ghorra, former Lebanese Ambassador to the U.N., the PLO has transformed most, if not all, the refugee camps into military centers for the training of mercenaries sent and financed by other Arab states.

Former U.S. Ambassador to the United Nations Jeanne Kirkpatrick, in testimony before the Senate Committee on Governmental Affairs, stated that funds spent by the UNRWA and the Committee on Palestinian Rights are just as available to Yasser Arafat as if they were simply transferred by bank draft.

Moreover, since the PLO has "official observer" status at the U.N., its representatives sit in on, even chair, discussions on international security.

As an observer at the International Civil Aviation Organization, a U.N. affiliate, the PLO is privy to decisions on air travel security -- security against the very hijackings the PLO routinely carries out.

Also, the U.N. has actively sought to undermine the economic structures of the West.

Radical U.N. agencies, like the United Nations Conference on Trade and Development (UNCTAD) and United Nations Educational and Scientific Organization (UNESCO), have actively

worked for the creation of the New International Economic Order (NIEO) adopted in 1974.

The NIEO calls for the wholesale redistribution of wealth from the developed Western countries to the Third World.

Blaming Third World poverty on "colonialism" and "economic imperialism", NIEO promotes state controlled economies generously funded with Western taxpayers' money.

The ill-conceived Law of the Sea Treaty was a similar attempt to forcibly redistribute wealth to the Third World. This treaty, endorsed by 130 U.N. members in April 1982, would have created a "World Council" to govern seabed mining.

This "World Council" would have effectively taxed Western countries for use of international waters in order to finance so-called Third World purchase of technology.

Even generally respected agencies are not free from radical taint.

The Executive Board of United Nations International Children's Emergency Funds (UNICEF) is dominated by a majority which, according to a Heritage Foundation study, "favors the ideology of the so-called New International Economic Order and opposes (the) free market."

UNICEF's bias is evident in their lopsided expenditures in Africa and Communist Indochina compared with Central and South America.

This is not surprising when one considers that the

majority of UNICEF aid is given not to children but directly to governments.

The Socialist dictatorships and Communist regimes of Africa and Southeast Asia are naturally more in accord with the radical views of UNICEF's majority than are the generally pro-Western governments in Central and South America.

The refugee camps run by the United Nations High Commission on Refugees (UNHCR) in Honduras along the border with El Salvador are reported to have become little more than "safe areas" for Salvadoran guerrillas seeking a respite from military action.

Not only is American taxpayer money going directly and indirectly to U.S. enemies abroad, but it is supporting spies in the United States -- spies that are protected by diplomatic immunity.

The Soviet Union has more than 300 U.N. "diplomats" and nearly 350 U.N. Secretariat employees in New York City.

According to Arkady Shevchenko, a former high-ranking "diplomat" for the Soviets, at least one-third of the 650 Soviets at the U.N. work directly for Soviet espionage agencies.

The restrictions placed upon Soviet and other anti-American nationals at the U.N., even the restrictions recently enacted by the State Department under a mandate from Congress, are far from effective.

The rules require U.S. approval for travel beyond a 25

mile radius. However, this often amounts to little more than mere notification.

As former U.S. alternate to the U.N. Charles Lichenstein notes, it is not difficult to evade the travel restrictions: "you only have to march onto the Eastern (Airlines) shuttle, pay your 70 bucks....and who knows who you are?"

The Soviet spies especially target U.S. businesses and researchers that operate at the cutting edge of high-technology. By stealing this technology the Soviets have managed in the past, and hope in the future, to upgrade their massive military arsenal forcing the U.S. and its allies to pump billions of dollars more into their own defense programs.

Unbelievably, U.S. taxpayers' dollars actually go to the Soviet Union.

According to U.N. rules, U.N. Secretariat employees are international civil servants employed directly by and with the United Nations.

Soviet employees at the Secretariat, however, are assigned a Soviet civil service rating and are paid by the Soviet Union.

They are then required to turn over their U.N. pay, which can be as much as $90,000 per year higher than Soviet pay,to the Soviet Union. This practice nets the Soviet government about $20 million per year.

The American taxpayer is, therefore, effectively giving the Soviet Union $5 million per year while employing Soviet spies to boot!

There seems to be no end to the abuses perpetrated by the radicals at the U.N. on the United States and its allies. For example:

The periodic condemnation of Israel and other pro-American governments,

The Soviet administered U.N. External Relations Division which, through its Department of Public Information, has never referred to the Soviet destruction of KAL 007,

Drafting a treaty declaring the moon international property and creating a U.N. agency, the Outer Space Committee, to administer the "territory".

Even with a strong U.S. Ambassador at the U.N., like Jeanne Kirkpatrick, the U.S. has been unable to make a serious dent in these abuses.

A U.N. measure passed last November calling for a withdrawal of troops from Afghanistan still did not mention the Soviet Union.

Probably only the threat that the U.S. would boycott the U.N. commemorative session last fall prevented Yasser Arafat from being invited to address the General Assembly. This invitation would have been issued barely one week after PLO terrorists murdered Leon Klinghoffer aboard the Achille Lauro.

The American people are sick and tired of sending over one billion dollars to the U.N. only to be treated as a whipping boy in return.

Only under the threat, and fact, of serious cuts in U.S. funding can the radicals at the United Nations be made to understand that their anti-American bias will no longer be tolerated nor funded by American taxpayers.

As long as the Soviet Union retains three votes in the U.N. General Assembly, I urge this Committee, in the strongest possible terms, to appropriate no more than one-third the amount of Soviet assessed contributions.

At the very least, U.S. contributions of taxpayers' money should not exceed Soviet assessed contributions.

I believe that American aid has been seriously misspent in the past.

I, therefore, strongly urge this Committee to carefully consider the national interest of the U.S. when appropriating funds this year.

No longer should American taxpayers be asked to fund anti-American government and radicals at the U.N.

No longer should Central Americans be forced to bleed nor American taxpayers face a potential tide of refugees simply because Congress refuses to supply the military aid anti-Communist Central Americans need to defend themselves.

It is high time to spend American taxpayer dollars wisely.

U.N. VOTING ANALYSIS

Senator KASTEN. Thank you for your testimony, and thank you for appearing here today.

As you may know, I was a Delegate to the U.N. General Assembly in 1982, and I had an opportunity to work closely with Jeane Kirkpatrick and others. As a result of that, we have, as part of the Foreign Operations Subcommittee, required the administration to put together a U.N. voting analysis. It is a voting analysis that you may be familiar with; it shows how often different countries vote with the United States of America.

We look forward to the testimony of our new Ambassador to the United Nations, in a week or so. It has been postponed, he should have testified before, but, obviously, he has been involved in other diplomatic efforts. So we look forward to his testimony, at which time he is going to present to us, once more, the analysis of the U.N. voting patterns. Much of what you pointed out in your statement will be raised with him. Thank you very much for your testimony here today.

Mr. ROTHFELD. Thank you.

Senator KASTEN. Our next witness is Mr. Thomas Dine, accompanied by Mr. Doug Bloomfield, of the American Israel Public Affairs Committee.

We are happy to have before us Mr. Thomas A. Dine, the executive director of the American Public Affairs Committee. Accompanying Mr. Dine is Mr. Douglas Bloomfield, legislative director of AIPAC.

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

ACCOMPANIED BY DOUGLAS M. BLOOMFIELD, LEGISLATIVE DIRECTOR

SUPPORT OF U.S. ANTITERRORIST POLICY BY ISRAEL

Mr. DINE. Thank you, Mr. Chairman.

Security and economic assistance is an essential foreign policy instrument. In that context, aid to Israel serves the national interests of the United States because Israel is the one democracy and our most reliable ally in the Middle East. Nowhere was this more evident than recently, in the aftermath of the U.S. action to curb the terrorist conduct of the Qadhafi regime.

Of all our friends and allies, of all our NATO partners, of all the many nations which receive extensive U.S. military backing and funding, only three stood vocally in support of American action—the United Kingdom, Canada, and Israel. It is, after all, in times of crisis and need that both nations, like people, see who their true friends are. It is, after all, in times of crisis when questions of overflights and logistical support become of critical importance.

Unlike most of our closest allies, Israel's leaders across the political spectrum boldly affirmed their country's unequivocal support for our ac-

tions, and Israel's readiness to assist us. This is in direct contrast to those in the Arab world who claim our friendship, yet repeatedly condemn our initiatives against terrorism.

Furthermore, as you have just indicated, at the United Nations, Israel voted with the United States on more than 91 percent of the General Assembly resolutions introduced in the 39th Session.

I commend you, Mr. Chairman, for the important legislation that you have been a part of in this regard.

In the information war, Israel has agreed to install a Voice of America transmitter on its territory to enhance American broadcasts to Soviet Central Asia and Afghanistan, despite the inherent risk of worsening the plight of Soviet Jews. By contrast, America's NATO allies, Greece and Turkey, both refused to host the VOA transmitter because of their unwillingness to endanger their relations with Moscow. Reportedly, Oman has also turned down the U.S. offer.

The strategic alliance between the United States and Israel is today blossoming. Israel has undertaken military planning with the United States to meet threats to mutual interests in the Middle East and the eastern Mediterranean.

RECOVERY OF ISRAELI ECONOMY

Israel and the United States have also cooperated over the past year in another bold initiative—working together, they have undertaken to rescue Israel's economy from the severe distress we reviewed together 1 year ago here.

Israel has presented over the past year an excellent example of how U.S. foreign assistance, in combination with strong and well-conceived corrective measures in the economy, can turn economic distress into an opportunity for recovery. Those who questioned foreign assistance said that aid may prevent a country from instituting tough austerity measures, which inevitably cannot be avoided.

The example of Israel clearly challenges this notion. U.S. assistance to Israel has made a concrete difference in Israel's struggle to regain economic stability, and has been accompanied by some of the toughest austerity measures ever imposed by a democracy in a compressed period of time.

The results to date have been impressive. Israel's foreign reserves have risen to over $3 billion from the dangerously low $2 billion mark. The inflation rate has also improved dramatically, from 450 percent last year to about 25 percent today.

In January of this year, Israel experienced a negative monthly inflation rate of minus 1.5 percent. While 25 percent inflation is still significant, it is a long way from triple digit inflation. The challenge for the United States, for this subcommittee, as we look to the year ahead is to stay the course, to continue a program that is working, and to take the steps that are necessary to reinforce, and indeed accelerate the recovery which is just beginning.

The foreign assistance program before you is truly an investment in Israel's future. Beyond the challenge of economic recovery, the program before you is essential for a second reason. This is the fact that our assistance to Israel over the coming year will have a critical impact on the security of the Jewish State.

I regret to report to you that since the last time we met, Israel's margin of security has been eroded. To a great degree, this has come about because of the very financial and budgetary austerity measures that have been necessary to rescue Israel's economy from the perils it faced one year ago.

The Defense Minister of Israel, for example, Mr. Yitzhak Rabin, has said repeatedly that he is the only Defense Minister in the Middle East who is cutting his defense budget.

Overall, what we have here is a pattern of accelerated Arab buildup, while Israel substantially cuts its forces.

Mr. Chairman, we are all proud of Israel's achievements, but realistically, it is impossible to have this combination of trends without a diminution of security. Israel's margin of safety is inevitably reduced by the austerity measures that it is being forced to take. In addition, foreign military sales levels to Israel have been reduced by 4.5 percent in fiscal year 1986, and a planned 5-percent increase for fiscal year 1987 was canceled.

So I come before you to ask that you take these very serious risks into account when you consider and, hopefully, adopt the levels recommended by the administration on aid to Israel for fiscal year 1987.

What this subcommittee and the full committee do, under your leadership, will have a very real and direct impact on Israel's security in a situation where there is much less room for error.

Thank you, sir.

[The prepared statement of Mr. Dine follows:]

TESTIMONY BY
THOMAS A. DINE, EXECUTIVE DIRECTOR
AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE (AIPAC),

Thank you, Mr. Chairman, for the opportunity to testify before this distinguished subcommittee. Appearing with me is Mr. Douglas Bloomfield, AIPAC's Legislative Director.

The American Israel Public Affairs Committee (AIPAC) appreciates the opportunity to express our views on the proposed foreign assistance bill for FY 1987 and the state of U.S.-Israel relations.

AIPAC is a domestic organization of American citizens who value a close and consistently strong partnership between our country and Israel. On our Executive Committee sit the presidents of the 38 major American Jewish organizations representing more than four and one-half million members throughout the United States.

Aid to Israel serves the national interests of the United States because Israel is the one democracy and our most reliable ally in the Middle East. In poll after poll for over thirty years, the American people have resoundingly reaffirmed their sympathy for the Jewish state and their conviction that Israel is a democratic ally of vital importance to the United States. Although the absolute amount of our aid to Israel is substantial, it is in comparative perspective one of the most cost-effective investments that the United States makes in support of its common interests. U.S. expenditures in support of our European allies in NATO, for example, are more than thirty times the size of our aid to Israel.

Mr. Chairman, we are meeting at a time when the relationship between the United States and Israel is excellent: there is a deep, broad-based partnership which is progressing, day by day, toward a full-fledged diplomatic and military alliance.

Nowhere was this more evident than in the aftermath of Libyan sponsored terrorist attacks and our efforts to curb the outlaw Qaddafi regime. Unlike even many of our closest allies, Israel's Prime Minister boldly affirmed his country's unequivocal support for our actions and Israel's readiness to assist us. This is in direct contrast to those in the Arab world who claim our friendship yet repeatedly condemn our initiatives against terrorism or who, like Saudi Arabia, even offer to replenish Qaddafi's coffers as a result of our boycott.

We also know of Israel's own efforts to combat international terrorism at its source. This too is in stark contrast to such Arab regimes as Saudi Arabia which provide Yasir Arafat with the funds--a reported $114 million this year--and bases, like Jordan and Iraq, from which to carry out terrorist attacks. This is to say nothing of Syria and Libya's support for all the PLO offshoots.

The strategic alliance has blossomed. Israel has undertaken military planning with the United States to meet threats to mutual interests in the Middle East and the eastern Mediterranean.

It has participated in a joint naval exercise with the Sixth Fleet designed to strengthen U.S. antisubmarine warfare capabilities in the eastern Mediterranean. It has provided access to its ports for regular ship visits by the Sixth Fleet.

It has made facilities available for the storage and maintenance of U.S. materiel for American use in a conflict. It has provided 12 of its Kfir fighter aircraft to the U.S. Navy's Aggressor Squadron to help train American fighter pilots. It has engaged in military training exchanges with the U.S. Marines. It has provided its practice ranges in the Negev to the air arm of the Sixth Fleet.

It has entered into formal arrangements to provide access to its sophisticated hospital facilities for U.S. military casualties in a conflict. These facilities have already been used to treat U.S. personnel injured in the bombing of the U.S. Embassy Annex in east Beirut.

It has shared with the United States the lessons of its combat experience in Lebanon, where Israel successfully used American equipment against Soviet weapons. It has undertaken joint research and development projects with the Pentagon to build on the technological expertise acquired from decades of conflict. Indeed, Israel has agreed in principle to participate in the Strategic Defense Initiative.

Moreover, Israel's role as an ally of the United States goes well beyond the confines of military cooperation in the Middle East.

At the United Nations, Israel voted with the United States on more than 91% of the General Assembly resolutions introduced in the 39th session, the highest rate of cooperation of any country in the world. This contrasts with 38% for Turkey, 33% for Greece--America's NATO allies in the eastern Mediterranean. It also contrasts with 15% for Egypt, 14% for Saudi Arabia and 14% for Jordan--America's so-called friends in the Arab world.

In the information war, Israel has agreed to install a Voice of America transmitter on its territory to enhance American broadcasts to Soviet Central Asia and Afghanistan, despite the inherent risk of worsening the plight of Soviet Jews. By contrast, America's NATO allies, Greece and Turkey, both refused to host the VOA transmitter because of their unwillingness to endanger their relations with Moscow. Reportedly, Oman has also turned down the United States offer.

In the search for peace with her neighbors, Israel's National Unity Government has taken many bold initiatives in the past year and has worked closely with the United States.

One major step was the decision to accept the risk of withdrawal of troops from Lebanon, in June 1985, in spite of the continued occupation of that country by Syria and in spite of the growth of Syrian-sponsored terrorist cells. It was the hope of the Government of Israel that this courageous step would be followed by a warming of relations with Egypt and an opening of relations with Jordan.

The Prime Minister has repeatedly called for King Hussein to enter negotiations without preconditions on the basis of United Nations Resolutions 242 and 338, and has expressed a readiness to consider any proposal the King might have and to go anywhere to meet him. The Prime Minister has, in his address to the United Nations and elsewhere, extended the hand of friendship to the King. In an effort to help meet the King's preconditions, the Government of Israel was also prepared to accept international accompaniment to the direct negotiations and to sit down with Palestinian participants who were not associated with terror. Unfortunately, the King continues to refuse direct negotiations with the Jewish state and continues to allow Yasir Arafat to exercise a veto over his actions.

Israel has also heeded Secretary of State Shultz's advice and taken tangible steps to improve the quality of life for the inhabitants of the "West Bank" and Gaza--easing currency controls and restrictions on movement in and out of the territories, permitting new industrial efforts, drastically curtailing censorship restrictions, and, most important, offering to return the reins of municipal government to the local Arab inhabitants. The Israeli Government is now pursuing a $500 million economic development plan for the territories, in cooperation with the United States.

And, despite the rejection of direct negotiations by each of her Arab neighbors except Egypt, Prime Minister Peres has sought ways to promote a peaceful environment through economic development under a multi-year, large-scale "Marshall Plan" for the Middle East. This plan's farsighted purpose is to help those Arab neighbors of Israel (Egypt, Jordan, Lebanon, and Syria) who are now suffering seriously from the recession in the Arab world brought on by the collapse of oil prices, and thereby to create a regional environment conducive to peace.

Out of sincere desire to nurture the peace with Egypt, the National Unity Government has agreed to refer the Taba dispute to arbitration. This, like many of the other steps in the peace process that Israel has taken over the past year, includes very significant concessions to the Arab side. Prime Minister Peres has even indicated a willingness to discuss arrangements for the Golan Heights with Syria.

And so, Mr. Chairman, in strategic cooperation, in the diplomatic arena, and in the peace process, Israel is today one of our foremost allies in the world, working with the United States toward regional and global security.

Israel and the United States have also cooperated over the past year in another bold initiative. Working together, they have undertaken to rescue Israel's economy from the severe distress we reviewed together one year ago.

Israel has provided, over the past year, an excellent example of how U.S. foreign assistance, in combination with strong and well-conceived corrective measures in the economy, can turn economic distress into an opportunity for recovery. This point was set forth comprehensively by economists Stanley Fischer and Herbert Stein in a recent Wall Street Journal article, "Israel Has Made Aid Work" (see attachment). Those who questioned foreign assistance said that aid may prevent a country from instituting tough austerity measures which inevitably cannot be avoided. The example of Israel clearly challenges this notion. U.S. assistance to Israel has made a concrete difference in Israel's struggle to regain economic stability, and has been accompanied by some of the toughest austerity measures ever imposed by a democracy in a compressed period of time.

Israel was, very frankly, hemorrhaging economically at the time of this annual hearing last year. Years of shouldering the enormous defense burden imposed by Arab hostility, and the accumulated result of the dependence on imported raw materials and fuel for Israel's industry, had led to extensive borrowing and a huge foreign debt. Foreign reserves were plummeting below $3 billion to the perilous "red line" level of $2 billion. At the same time, inflation was raging at 450% per year and, in one month, reached an annual rate of 800%. The government budget was running a deficit equivalent to 17% of the Gross National Product.

Then something unusual happened. Within Israel, the many parties and different schools of thought pulled together, and said that the higher national interest required them to put aside their differences and work in a united

fashion for national economic recovery. Equally important, the Government of the United States, and particularly Secretary of State George Shultz and the U.S. Congress, stepped forward and, in the spirit of a true ally, offered the hand of assistance in a time of trouble.

On July 1, 1985, the Government of Israel instituted a bold and courageous economic plan aimed at curbing runaway inflation, reducing the budget deficit, bringing the foreign exchange crisis under control, and starting the nation back on the path to economic growth. The major elements of the austerity program have been severe and painful, but necessary, and include a wage and price freeze, a suspension of monthly cost-of-living adjustments, a reduction in government subsidies to basic commodities that especially strained those in the lower income brackets, major cuts in the government budget, a 19% devaluation of the shekel, and a freeze on government hiring.

These measures have led to one of the most rapid reductions in standards of living ever imposed on a free people by their democratic government. In one short year, real earnings have been cut by an average 10% and in many cases 20%, as compared to July 1985. And while earnings have declined, the cost of living has risen, according to the plan.

Israelis now must pay user fees for health services and for educating their children. Each family must pay $60 per child enrolled in kindergarten through senior high school. Subsidies on basic commodities like bread, milk, chicken and electricity have been cut. The tax rates paid by Israelis are still among the highest in the world. And now, the Government of Israel has instituted a tax on the elderly's pensions.

This terrible "scissor," of incomes rapidly going down while the cost of living goes up, has cut deeply into the living standards and quality of life of the people of Israel. But they have joined their government in recognizing the necessity to "bite the bullet" to rescue the economy and get back on the path to economic growth.

The Congress, the people, and the President of the United States were partners in this process also, because another critical ingredient of the recovery program is U.S. economic assistance. U.S. aid provided the critical "safety net" to stop the decline of foreign reserves and restore confidence in Israel's economy. This in turn prevented a crisis in which Israel would have become more dependent on high-interest rate, short-term borrowing in the international financial market. Aid made it possible to bring Israel's international financial position back under control.

Aid was also essential to prevent massive unemployment from overwhelming the economic recovery program, destroying public support for the steps that are required for recovery. Israel's unemployment has, unfortunately, increased to very high levels, but the trend would have been still worse without U.S. assistance. As Secretary of State Shultz said recently:

> I am happy to say that under Prime Minister Péres' bold and farsighted leadership, Israel has indeed tackled its economic problems in a forthright and constructive way through a series of stabilizing measures, including reduced expenditure and a cut in real wages, and that's tough to do. But you did it.

The results to date have been impressive. Israel's foreign reserves have risen to over $3 billion, from the dangerously low $2 billion mark. The

inflation rate has also improved dramatically from 450% last year to about 25% today. In January of this year, Israel experienced a negative monthly inflation rate of -1.5%. While 25% inflation is still significant, it's a long way from triple-digit inflation.

Due to cuts made in the budget, the Bank of Israel printing press did not issue a single additional shekel during the 1985/86 Israeli fiscal year. The government's budgetary deficit was running at about 17% of the Gross National Product. Since instituting its austerity program in July, the budget deficit has fallen to about 7% of GNP. In addition to the strides made in reducing the budget deficit, Israel's trade balance has also improved. The civilian trade deficit declined by $800 million in 1985 after a $1 billion improvement in 1984. Even in a year of slow economic growth, exports grew by 6% and imports fell by almost 5%.

Although Israel has made substantial progress, the path has not been easy. Israel is by no means through the difficult phase of economic recovery. There is still much ground to cover. Israel must forge ahead with its plan of continued austerity while attempting to renew economic growth. This means the government must hold back the reins on its own spending in services and even defense and commit resources to fueling private sector growth. Israelis will continue to make sacrifices not only for their military security but also for their economic security.

Through these difficult times of economic austerity, the Government of Israel must continue to hold out to its people the "ray of hope" that makes it possible for them to accept further sacrifices.

The United States has a vital interest in Israel's economic recovery for several reasons. First, the economic health of our major allies and fellow democracies is inherently a vital interest for the United States, because in a very profound sense, the free nations stand or fall together. Second, the economy of Israel is the bedrock of the nation's ability to sustain its own defense, and for this reason Israel's economic health is essential to the stability of the region. And third, it is a vital interest of the United States to put Israel back on the path to economic growth and self reliance. This is something we can do and, for our own interest, must do.

The challenge for the United States, and for the subcommittee, as we look to the year ahead, is to stay the course, to continue a program that is working, and to take the steps that are necessary to reinforce and indeed accelerate the recovery to which we have already contributed so much. The foreign assistance program before you is truly an investment in Israel's future.

And beyond the challenge of economic recovery, the program before you is essential for a second reason. This is the fact that our assistance to Israel over the coming year will have a critical impact on the security of the Jewish state, even more this year than in the past.

I regret to report to you, that since the last time we met, Israel's margin of security has been eroded. To a great degree, this has come about because of the very financial and budgetary austerity measures that have been necessary to rescue Israel's economy from the perils it faced one year ago.

As part of the austerity program, Israel has since 1984 made deep and significant cuts in its defense budget to help curb inflation and revive the economy. Overall, the defense budget has been reduced in the past two years by about 20%--one of the largest reductions ever imposed by a democracy in

so brief a timespan. Current economic planning assumes that these reductions will persist into the 1990's. Yitzhak Rabin is the only Defense Minister in the Middle East that has and is cutting his military budget.

While Israeli military planners have attempted to make the cuts without eroding the narrow margin of safety, reductions of this magnitude have, inevitably, added to the element of risk in many areas. Israel is no longer cutting fat out of the defense budget, it is beginning to cut into its muscle.

(1) Active combat units have been disbanded, reduced in size, or converted into reserve formations. This has decreased the number and size of army brigades and air force squadrons available to meet a surprise attack. It seems likely that additional active units will suffer the same fate. This weakens the basis on which Israel's security has rested since the conclusion of the 1973 Yom Kippur War.

(2) Combat units have been disbanded. It appears that at least one of Israel's mechanized/armored divisions has been dissolved. This means a serious decline in Israel's visible deterrent capability as well as a decline in its war-fighting ability.

(3) Training has been significantly reduced. There have been serious cuts in the number of flying hours allowed aircraft pilots, ground forces training has been limited, and the expenditure of ammunition in training has been curtailed. For example, Israeli pilots now are able to fly fewer training hours than their American or Jordanian counterparts.

(4) Reserve readiness has been cut. This year, the number of reserve days being served by Israeli soldiers will be cut severely.

(5) Thousands of active duty military personnel have been released, with thousands more scheduled for dismissal. This has meant the loss of a great many highly-skilled individuals who will be sorely missed by the Israeli armed forces.

(6) Ammunition and equipment stockpiles have suffered deep cuts. This has reduced Israel's ability to sustain its forces in combat. Stocks expended during the Lebanon war have not been replaced, and in order to further reduce expenses, the armed forces have continued to draw down their stockpiles without full replacement.

(7) Naval building programs have been cut back. Israel has had to delay the deployment of the Saar-5 advanced missile boat.

(8) Expenditures on research and development have been significantly curtailed. This will diminish Israel's ability to develop and produce the unique new weapons and countermeasures needed to counter increasingly sophisticated weapons entering Arab arsenals. The Israeli defense industries have reduced their staffs and plant facilities and thus are less able to support Israel's military needs.

The excellent and supportive advice that Secretary of State Shultz and other officials have offered to the Government of Israel has played an important role in the successes that have been achieved in bringing Israel's economy back under control. To that end, the $1.5 billion supplemental aid request which this Subcommittee approved last year has provided significant support during this austerity period. But, inevitably, the plans we have encouraged have also contributed to the decisions to make reductions in

defense. An essential ingredient of the austerity package was the arrangement that was established between the governments of the United States and Israel allowing for a gradual rise in FMS grant aid to Israel. It was planned to provide Israel, over the next five years, with a total of $10 billion in FMS grants and forgiven loans. This would allow Israel to focus on economic recovery while maintaining the minimum strength necessary for security.

Thus far, however, the FMS levels to Israel were reduced by 4.3% in FY 1986 and a planned 5% increase for FY 1987 was cancelled.

Despite reductions in oil revenue, Israel's enemies continue to purchase arms at an unprecedented pace. The best available information indicates that they placed orders worth nearly $30 billion for military goods and services during the last two years alone. According to the U.S. Arms Control and Disarmament Agency, five of the seven largest arms importing countries are Arab countries at war with Israel: Iraq, Saudi Arabia, Libya, Syria, and Jordan. And, it may be significant that, despite its economic problems, Egypt was the fourth largest importer.

Syria has made major efforts to expand and improve its armed forces since its defeats in the 1982 fighting. The Syrian military now has about 500,000 men, organized into nine divisions, compared with only six divisions and 300,000 men in 1982. Several years ago Syrian military sources claimed that they could mobilize a total of 750,000 men, and recent reports indicate that they intend to increase this to a million.

This expansion has been made possible by substantial purchases of arms. It appears that in 1984 and 1985, the Syrians ordered Soviet weaponry worth more than $5 billion. According to the Department of Defense, these orders have made Syria the largest recipient of Soviet arms in the Third World.

Syrian air defenses have been upgraded significantly in recent years. In 1983 the Syrians received two SA-5 missile sites, and a third has recently been added. Last year the Soviets gave control of the SA-5s over to Syria. Although these missiles do not pose a threat to Israel's tactical aircraft, they do pose a serious danger to commercial aircraft that fly into Israel and to large military support aircraft that assist Israel's combat planes.

The Syrians have also been provided other, more advanced air defense weapons. Weapons received in the past few years have included the SA-8, the SA-11, the SA-13, and the SA-14, giving the Syrians a full range of Soviet-origin air defense missiles.

The Syrians also have received the improved MiG-23 Flogger G fighter, a version more capable than those previously received. By next year, they are scheduled to receive the MiG-29 fighter, the most advanced fighter aircraft in the Soviet arsenal. It is considered comparable to the U.S. Navy's F-18.

The Syrian navy has been substantially rebuilt in the past few years. Sepal coastal defense missiles with a range of 300 kilometers were delivered last year. Syria appears to be the first country other than the Soviet Union to receive this weapon. For the first time ever, the Syrian navy has been provided with submarines, two "Romeo" class boats delivered late last year. The Syrians have also been expanding their force of missile patrol boats. Two additional Osa-II missile boats were delivered in 1985. The Syrians also may have received last year two of the four Nanuchka missile boats that they ordered several years ago.

The Jordanians have also embarked on a major defense build-up. According to the U.S. Arms Control and Disarmament Agency, total Jordanian arms imports from 1981 to 1983 (the most recent figures available) amounted to over $3 billion, including $1.1 billion in 1983 alone. Indeed, tiny Jordan, a country with only two million people, was the world's seventh largest importer of arms in 1983. (Iraq and Saudi Arabia were first and second, and Israel ranked only 27th.) By contrast, Israel's purchases were only $2.5 billion from 1981 to 1983, and only $370 million in 1983.

These imports have included new French-built Mirage F-1 fighters, British Khalid battle tanks, Austrian artillery, and Spanish aircraft. Only last year Jordan ordered arms worth more than $300 million from Britain. American weapons sold to Jordan in recent years have included AH-1 Cobra helicopter gunships, Maverick air-to-ground missiles, tank modernization kits, and a variety of other weapons.

During the past two years, the Jordanians are reported to have placed arms orders worth more than $750 million. Like many Arab countries, the Jordanians shop around the world for their weapons. Among the countries that Jordan has approached to provide weapons are Argentina, Austria, Brazil, France, Great Britain, Spain, and the Soviet Union.

Despite reductions in oil revenues, Saudi Arabia continues to order weapons on a grand scale. The Saudis placed military orders worth more than $18 billion in 1984 and 1985. In addition, the Saudis are interested in buying even more advanced weapons. Despite a $7 billion purchase of Tornado fighter bombers in 1985, the Saudis have indicated that they still would like to obtain more American F-15 aircraft. Moreover, the Saudis want to upgrade the F-15s that the United States has previously supplied. Among the modifications that they want to obtain are multiple bomb racks, to give the planes a strike capability, and electronics upgrades. Should the United States provide these improved F-15s to Saudi Arabia, it would give Arab forces fighter aircraft superior to the best available to Israel. This would be a significant step towards undermining the qualitative superiority that Israel relies on to offset the overwhelming Arab quantitative advantage.

Iraq, since 1980, has expanded its military forces far more than any other Arab nation. Recent information indicates that the Iraqis may now have 1,000,000 men under arms, organized to about 40 combat divisions. By comparison, in 1980 they had less than half as many men, including reservists and members of the paramilitary Popular Army, and only 12 combat divisions.

This vast expansion has been made possible by substantial arms purchases. The U.S. Arms Control and Disarmament Agency reports that between 1975 and 1983 Iraq imported over $20 billion worth of weapons. This pace of procurement continues today. According to the Department of Defense, Iraq received Soviet weapons worth $2.5 billion in 1984. Only last year, Iraq became the first country outside the Warsaw Pact to receive the Su-25 Frogfoot ground attack aircraft, a plane similar to the American A-10.

Overall, what we have is a pattern of accelerated Arab buildup while Israel substantially cuts its forces. Mr. Chairman, we are all proud of Israel's achievements, but realistically it is impossible to have this combination of trends without a diminution of security. Israel's margin of safety is, inevitably, reduced by the austerity measures it is being forced to take.

And so I come before you to ask that you take these very serious risks into account when you consider the level of aid to Israel for FY 1987. What

this Committee does will have a very real and direct impact on Israel's security, in a situation where there is much less room for error.

Let me sum up, Mr. Chairman, the conclusions of my testimony. Our aid to Israel is always a wise investment, because Israel is our one democratic friend and most reliable ally in a critical region of the world. But this year, aid to Israel is particularly important, for two reasons. First, is to prevent any further erosion in Israel's narrow margin of security, in a situation where its forces have been cut while those of the Arabs are rapidly growing.

The second reason aid is particularly important this year is to stay the course on the recovery program for the Israeli economy. This is no time to reduce our effort, just when success is in sight.

However, we all understand the constraints of the Gramm-Rudman-Hollings environment and its implications for foreign aid. Israel, in recognition of this reality, acted as a responsible partner in the foreign aid process by returning $51.6 million to the U.S. Treasury this past January despite its own economic pressures.

Mr. Chairman, I thank you once again for this Committee's strong friendship toward Israel, and I thank you for this opportunity to explain the importance of aid for FY 1987.

WEDNESDAY, FEBRUARY 26, 1986 THE WALL STREET JOURNAL

Israel Has Made Aid Work

By Stanley Fischer
And Herbert Stein

Israel is the largest single recipient of economic aid from the U.S. This is partly because the economic stability of Israel is uncertain and is important to U.S. national interests. Therefore a report on the progress of the Israeli economy is relevant to policy decisions to be made here.

A common view, supported by some experience, is that the availability of foreign aid prevents the recipient country from taking the steps required for its own economic health. The story of Israel suggests that there may be exceptions to this dismal lesson.

On July 1, 1985, Israel introduced a radical stabilization program designed to bring the inflation rate down from 1000% to 20% a year or less. Success was swift. Within two months inflation was down to less than 4% a month; in November and December 1985 it averaged only 1% a month. But there is still a long way to go before success is assured.

The Israeli inflation rate rose by stages from 2% per annum in 1967-70 to the 1000%-per-annum area at the end of 1984. The pattern was for an inflationary shock to kick the inflation rate up to a new plateau, at which it stabilized before the next shock.

Underlying the Israeli inflation were massive budget deficits averaging 15% of gross national product for more than a decade, fueling, and fueled by, a fast-growing national debt and rapid monetary growth. At the heart of the government's budget problem is defense spending of 25% of GNP. Despite large-scale U.S. aid, the government found it increasingly difficult to borrow at home or abroad in 1984 and 1985, and was forced instead to print money. More than anything else, it was the difficulty of borrowing that forced the government to undertake the stabilization program.

Three Policy Positions Argued

Widespread indexation of assets and of wages made living with inflation tolerable. As inflation persisted from 1979 to 1983 in the 100%-130% range, Israelis explained to foreigners that they had found a way of living with high but non-exploding inflation.

Three policy positions were argued during this period. A first group was willing to live with inflation. Another group wanted steady disinflation through gradual reductions in the budget deficit and money growth. A third, shock-treatment group argued that only a comprehensive program designed to move the economy immediately to a sustainable low inflation equilibrium could succeed.

The living-with-inflation group evaporated as inflation hit the 20%-a-month range in 1984.

Tough anti-inflationary policy was widely expected from whichever party won the July 1984 election. But it failed to materialize. The election led to a coalition government that took nearly three months to form.

The first stabilization program of the new government was a package deal with the Histadrut (national trade union organization) and employers whereby wages and prices would be frozen for three months. However, devaluation continued. The planned 1985/86 budget had sharply cut the deficit, but with the government spending increasing amounts to maintain the prices of subsidized goods, the deficit did not fall. Nor were other planned cuts in government spending implemented.

By April and May of 1985 the package deal had fallen apart and inflation was back to the 400%-per-annum area. The balance-of-payments deficit had been reduced from its 1983 level, but foreign-exchange reserves were falling rapidly as Israelis switched into dollars. The government budget deficit was at an unsustainable level and the need for action was clear.

By this stage the comprehensive approach was the only choice. The aim would be to move the government budget, monetary and exchange-rate policy, and wages and prices all at once to a new, sustainable level.

Israeli Inflation 1985

% per month

Jan.-May	11.3*	Sept.	3.0
June	14.9	Oct.	4.7
July	27.3	Nov.	0.5
Aug.	4.0	Dec.	1.5

*Average

The essential requirement for the stabilization was a sharp reduction in the budget deficit. Without that, no amount of wage and price controls, sophisticated exchange-rate management or clever monetary policy could do more than temporarily slow the inflation.

The program had three main ingredients:

- A cut in the budget deficit from 17% to 8% of GNP. The cut came mainly through subsidy reductions.
- A large devaluation to be followed by a stable (though not formally fixed) exchange rate against the dollar.
- Introduction of wage and price controls and suspension of wage indexation and other elements of existing labor contracts by emergency decree.

In support of the program, monetary policy would control the growth of credit.

The devaluation and lifting of subsidies caused a 28% jump in the price level in July. Wage earners were not compensated for most of the July inflation, with the result that the real wage fell about 20%.

The government's main fear about the program had been that it would create massive unemployment. Economists argued that a reduction in the real wage and devaluation would prevent unemployment and allow a switch of production into exports. The knowledge that a requested supplementary U.S. aid package of $1.5 billion over the next two years was likely to be granted within a few months encouraged the government to act decisively, in the belief that it would have a safety net of reserves and resources to use to increase employment if things went badly wrong.

Immediate results of the plan have been positive. The data show the inflation rate coming down fast. In January 1986 the consumer price index declined 1.5%. The budget is doing even better than expected as the reduced inflation increases real tax revenue (tax receipts previously lost much of their value by the time they were collected). The trade balance has maintained the improvement that began with the maxi-devaluation at the end of 1983. The black-market exchange rate, which had been at a premium of 25%, has fallen to 5%. Price controls have not yet produced serious shortages.

Although labor objected bitterly to the use of emergency decrees to suspend contract terms, a new voluntary wage agreement was reached after remarkably little strife. The agreement allowed the real wage reduction of July to go through, but maintained partial indexation and provided for nominal wage increases of 4% a month from December 1985 to February 1986.

Monetary policy during the first months of the stabilization was strongly contractionary. The nominal interest even in October was still 13% a month, implying an annual real interest rate of more than 100%. Several large firms are in financial difficulties. The nominal interest rate was brought down rapidly in November and is now 5% a month.

Contrary to fears, unemployment rose only briefly in July and August, and has started back down again.

So far, then, the plan is a total success. Public approval for the economic policy, despite the immediate hardships it has caused, is widespread.

Prospect of Inflation-Rate Rise

Nonetheless, serious difficulties remain. The first is that the government budget deficit is still too high. At 8% of GNP, it cannot be financed without increasing debt or printing money too rapidly. Yet the government finds it increasingly difficult to cut spending. Because government revenue in Israel is near 50% of GNP, the tax burden is too high and taxes should be cut. But without further spending cuts, taxes cannot be cut. Further spending cuts are thus a high priority.

The wage agreement will raise nominal wages at least 17% over the next three months. Unless the government finds a way of neutralizing that increase, the price level will rise as business costs increase. Price controls cannot contain such pressure, and in any event cannot be successfully maintained over long periods.

The prospect is that the inflation rate will rise back to the 3%-4%-a-month rate by the end of April, unless the government finds a way of dealing with the effects of the planned wage increases. There is no way of doing so without further budget-deficit reductions. From 3%-4% a month inflation, the trip to 10% a month is easy, especially for an economy that has been that way before.

Budget decisions of the next few weeks will show whether the coalition government can bring itself to the measures now needed to protect the gains achieved by its decisive action of last July.

Mr. Fischer is an economics professor at MIT and Mr. Stein is a senior fellow at the American Enterprise Institute and a member of the Journal's board of contributors. Both are consultants to the U.S. State Department on the economy of Israel.

CONCLUDING REMARKS

Senator KASTEN. Mr. Dine, thank you very much.

I just want to say that we will continue to work with you for the goals that we share. I very much appreciate your appearing before the subcommittee.

Mr. DINE. I just want to thank you again for the opportunity to appear, and also to say to you that you and the subcommittee have really been a major factor behind the excellent relationship between the United States and Israel today. Thank you.

Senator KASTEN. Thank you very much.

AMERICAN HELLENIC INSTITUTE

PREPARED STATEMENT OF DR. DEAN LOMIS

Our next scheduled witness was Dr. Dean Lomis, the chairman of the American Hellenic Institute's Public Affairs Committee. Unfortunately, we have been informed that Dr. Lomis was suddenly taken ill, therefore, he will not be able to attend the hearing. His statement, however, will be made a part of the record as if presented at this time.

[The prepared statement of Dr. Lomis follows:]

PREPARED STATEMENT OF PROF. DEAN C. LOMIS

CHAIRMAN

AMERICAN HELLENIC INSTITUTE PUBLIC AFFAIRS COMMITTEE, INC.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before the Subcommittee on behalf of the American Hellenic Institute Public Affairs Committee, Inc., (AHIPAC), and present views on the foreign aid appropriation legislation for fiscal year 1987 affecting Greece, Turkey, and Cyprus.

The Authorization Bill for Fiscal Year 1987 provides Greece with $500 million, while Turkey is authorized to receive $868 million. Additionally, Cyprus is authorized to receive $15 million in FY 1987. We oppose the authorization for Turkey as contrary to the best interests of the United States.

This year we are facing serious cuts in domestic spending due to a concerted effort to balance the nation's budget and reduce our huge deficit. Too many important domestic programs are facing substantial cuts in funding, from those that benefit low-income families, the elderly, and the handicapped, such as Medicare and low-income housing, to those affecting our nation's investment in its future, such as student aid, international education, federally funded research at colleges and universities, and the Library of Congress. Our farm economy is in disarray and our oil economy threatens to follow, with families losing their source of income and livelihood each day. In such an era, when our own people are asked to tighten their belts, we support foreign aid only at the lowest possible level, and then only if after careful deliberation and scrutiny we are convinced that it indeed serves our vital interests.

With regard to Greece, Turkey, and Cyprus, the fundamental national security goal of our policy, as we see it, must be to promote peace and stability in the unstable Eastern Mediterranean and to strengthen NATO. The recent trip of Secretary of State Shultz to Athens offers the United States a unique opportunity to bring this about. The meetings between Prime Minister Papandreou and the Secretary were extremely candid and cordial and should be viewed as a very encouraging sign of the desire of both countries to establish a sounder relationship. Athens is clearly interested in the benefits to its own economy resulting from closer ties with Washington, as well as for its defensive capabilities due to Ankara's intentions

on Cyprus and in the Aegean. The recent sale of 40 F-16 jet fighter aircraft to Greece is a significant step toward improving the relationship. Mr. Chairman, I believe that aid given to Greece, Turkey, and Cyprus must attempt to accomplish two objectives: a) help bring about a just and lasting settlement of the Cyprus dispute, and b) provide for the maintenance of the balance of power in the Aegean. We submit, Mr. Chairman, that the authorized levels promote exactly the opposite. It ignores the dangerous situatuion in Cyprus and promotes friction between Greece and Turkey, thus weakening NATO.

Regarding Turkey, we recommend a reduction in the level of military and economic aid, and all of it subject to an agreed Cyprus settlement based on majority rule with full minority rights guaranteed and all Turkish troops and colonists removed from Cyprus.

The generous foreign assistance Turkey has been receiving from the United States, particularly since the passage in 1978 of legislation lifting the partial arms embargo, has been allocated with the clear understanding that Turkey would cooperate fully in efforts to bring about a lasting solution to the Cyprus problem. To date--eight years later--Turkey has not been forthcoming.

BRINGING ABOUT A CYPRUS SETTLEMENT

As we have said repeatedly over the past twelve years, we believe it is essential, if progress is to be made on the Cyprus issue and in Greek-Turkish relations overall, that aid to Turkey be conditioned on tangible and verifiable progress on Cyprus.

Turkey continues to illegally occupy 37% of Cypriot territory, against the rule of law, American laws, international treaties, bilateral agreements and United Nations resolutions. At present, Ankara is erecting permanent military structures in the occupied territory of Cyprus, thus proving her intention to remain a permanent presence. The newly constructed military airfield at Lefkoniko and the nearly completed naval base at Kyrenia are only two examples of Turkish intentions. The Turkish military and the Turkish economy are maintained by American tax dollars provided to Turkey as a NATO member, for NATO's defense, but not for the occupation of another country. Cyprus has not only been friendly toward the United States, but has provided uninterrupted assistance to American citizens who were the victims of international terrorism directed against our national interests in the Middle East.

We believe it is essential to furthering U.S. interests and reconstituting NATO's strength and credibility, that this Committee and the full House link aid to Turkey with a settlement of the Cyprus dispute.

The conditions precedent on all military and economic aid to Turkey that we

recommend for consideration by the Subcommittee include those drafted in the American Hellenic Educational Progressive Association, (AHEPA), resolution of August, 1985, and agreed to by AHIPAC, and are as follows:

1) the withdrawal of all Turkish military forces and colonists from Cyprus;
2) agreement by Turkey and the Turkish Cypriots to the rule of law and constitutional arrangements based on the universally-accepted principle of majority rule with full minority rights guaranteed;
3) the immediate return of Famagusta/Varosha and Morphou to the Republic of Cyprus under U.N. auspices for the immediate resettlement of the refugees. The area should be specifically delineated as that inhabited by the Greek Cypriots prior to Turkey's invasion of 1974;
4) Turkey has withdrawn its recognition of the so-called "Turkish Republic of Northern Cyprus" and has persuaded the Turkish Cypriots, in accordance with Security Council Resolution 561, to revoke their illegal action;
5) full cooperation with the International Red Cross regarding investigation of the five missing Americans and the 1,614 missing Greek Cypriots;
6) Turkey is taking steps including good faith support for and participation in talks conducted under U.N. auspices, to achieve a settlement of the conflict on Cyprus based on U.N. resolutions and international law.

Furthermore, the continuing tilt of the United States toward Turkey, which is the principle cause of difficulties in US-Greek relations today, is clearly reflected in the aid proposals for Turkey and in our reluctance to require Ankara to comply with the rule of law, international treaties, and the democratic principle of Majority rule.

Since 1978, we have repeatedly warned that unless the United States changes its course and adopts a truly balanced policy toward Greece and Turkey, future problems in the eastern Mediterranean would become infinitely more complex.

We are deeply concerned about the escalating arms race in the Aegean Sea. Mr. Chairman, Greece and Turkey are unmistakably drifting toward a military confrontation. Unless the United States adopts an even-handed policy toward both countries, a conflict is inevitable. I have no doubt that we all understand the catastrophic consequences of a Greco-Turkish clash. At stake is nothing less than the integrity and credibility of NATO as a defensive alliance.

An absolute requirement to an even-handed policy is the scrupulous maintenance of the balance of power in the Aegean at the lowest possible force levels. Moreover,

both countries face serious economic and social problems, and it would be in their best interest to devote more of their available resources to the solution of these problems than to acquiring disproportionately larger arsenals. Greece has been spending over 7% of its GNP in defense expenditures over the last several years, which is the highest among NATO countries, including the United States.

To maintain the balance of power, especially in view of Turkey's numerical superiority, the United States should provide aid, on at least a 1 to 1 basis, both quantitatively and qualitatively for Greece and Turkey.

With regard to Cyprus, we recommend that no part of the $15 million authorized for Cyprus be used or earmarked for the Turkish Cypriots until they revoke their illegal action of November 15, 1983. Consideration should also be given concerning an additional amount of $10 million to the Republic of Cyprus for general purposes in view of the significant assistance given to the United States in the region over the past three years, and as recognition of the growing pro-Western attitude on Cyprus as indicated in the latest election results, showing the largest loss ever for the Cypriot Communist Party.

The United States bears considerable responsibility for the present plight of the Cypriot people. We have armed and trained the aggressor, and we took no steps to halt or limit the invasion of their country. The Executive Branch violated our own foreign aid laws by failing to halt arms shipments to Turkey. As long as U.S.-armed Turkish troops remain on Cyprus, the United States has an obligation to provide assistance to Cyprus.

Nowhere in the Treaty of Guarantee is the right conferred on anyone to use force against the Republic of Cyprus. Moreover, the right of unilateral intervention is conditional and is to be exercised with "the sole aim of reestablishing the state of affairs created by the present treaty". But, Mr. Chairman, let us assume for the sake of argument that Turkey has the right, as she claims, to unilaterally intervene by force against Cyprus. Was Turkey's use of force done "with the sole aim of re-establishing the state of affairs created by the present treaty"? The answer is a resounding no. What Turkey had done was to use force to militarily partition Cyprus and maintain a 35,000 man-strong military force on 40% of Cyprus for the past twelve years. In truth, Mr. Chairman, Turkey's use of force against Cyprus is in direct violation of the Treaty of Guarantee, of the U.N. Charter that prohibits the use of force by one state against another, of international law in general, and of the American Foreign Assistance Act of 1961.

The recent Soviet proposal to internationalize the Cyprus issue by calling for

the removal of all foreign forces from the island and to reunite its territory is being favorably received by free nations. Washington's procrastination in demanding enforcement of the rule of law and reluctance to require Turkey to adhere to it, creates a scenario of potential political advantages for the Soviet initiative. The unfortunate consequence of such a success would be the removal of the British bases from Cyprus and the loss of their defensive capabilities to NATO and other American interests.

We are deeply concerned, Mr. Chairman, that even if the Subcommitte adopts our suggestions, the balance of power, and hopes for peace in the region may still be jeopardized by significant allotments of aid which may be provided to Turkey under the terms of the DECA agreement currently being renegotiated with Ankara. Any renewed agreement with Turkey should, in the interests of the United States, be subject to the conditions referred to earlier, and subject to Congressional approval if any commitment of funds is involved.

THE INSTABILITY OF NATO'S SOUTHEASTERN WING

The Turkish threat to Greece is not imaginary, Mr. Chairman. The continuing occupation of 37% of Cyprus, repeated statements by Turkish government officials over the past twelve years regarding the Aegean, the totally unreasonable and obstructionistic Turkish policy towards NATO which prevents the resolution of residual problems and the required functioning of the Southeast wing of the Alliance, and the deployment of the Turkish army, a substantial portion of which is poised against Greece, evidence Turkey's expansionist attitude.

Turkey's disregard of the 1936 Montreux Convention, convened at her request, and of which she is a signatory, is the principle focus of attention in the controversy generated by Turkey on the militarization of the Greek island of Limnos as a NATO component in the Aegean Sea, which has further disrupted NATO operations in the region.

The Montreux Convention permits Greece to militarize the island. If Turkey has serious questions regarding that interpretation, she should address them to the International Court of Justice as she originally agreed to do in 1978, at the recommendation of Greece. On this point, Mr. Chairman, we recommend that should Turkey refuse neutral efforts at mediation, then the United States should impose binding conditions on all allocations of American aid to Turkey.

Furthermore, we recommend that the United States not participate in future joint military exercises with Turkey in the Aegean Sea should the Ankara government refuse to remove its objections to the participation of Greek forces stationed on

Limnos. Joint military maneuvers between Turkish and American forces—without Greece—only serve to give the impression, incorrectly, that the United States endorses Turkey's position. This exacerbates U.S.-Greek relations and only furthers Ankara's intransigence on this and other outstanding issues with Athens.

The situation in the Eastern Mediterranean, Mr. Chairman, has reached the critical stage. The United States seems to react to events rather than anticipate problems and attempt to prevent them. Time, however, is running out. It is urgent that positive action be taken before disaster results.

I would like to remind the Subcommittee, Mr. Chairman, that the present situation in the Aegean is a direct consequence of America's acquiescence to Turkey's illegal invasion of Cyprus. After the twin illegal Turkish invasions of July and August, 1974, the end result of American foreign policy was to acquiesce in the act whose illegality was well understood by all of Washington's foreign policy managers at the time, thus confirming the Turkish military regime's belief that Washington would condone actions by an "ally" in the name of "strategic" considerations. Cyprus, therefore, was to be the catalyst by which Turkey's military rulers would raise their level of diplomatic intransigence to an art form, thereby securing the negotiating stalemate now in existence between Ankara and Athens, and huge amounts of foreign aid from the Soviet Union and the U.S.

Secondly, the widely reported construction of a large airfield at Lefkoniko in occupied Cyprus, the cost of which is reportedly huge, has been completed. There is serious speculation, from Turkish Cypriot official sources, that the airport is to be used by the United States Rapid Deployment Force. I am sure, Mr. Chairman, that the gravity of the implications for U.S. prestige and credibility, were this report to be true, is clear to you and the Members of this Subcommittee. As one author put it, "The use of American aid money to build an unnecessary airport on stolen territory administered by an occupation that is internationally condemned, makes pitiful nonsense of the State Department's claims to be neutral in Cyprus." We, therefore, ask that a congressional investigation be initiated immediatley to determine the veracity of this report and, if indeed the airport were constructed with U.S. aid funds, all aid to Turkey must be immediately suspended.

This Subcommittee, then, can play a crucial role in resolving the outstanding issues among Greece, Turkey, and Cyprus, and meet its constitutional and partnership role in the formulation of United States foreign policy, by establishing an even-handed approach to Fiscal Year 1987 foreign aid legislation.

I would like to comment now, Mr. Chairman, on several matters relevant to the subject of these hearings.

TURKEY'S HUMAN RIGHTS RECORD

Turkish disrespect for human rights is a sore spot in the eyes of the free world and an embarrassment to the United States. In the summer of 1984, an organization of Turkish workers in Germany rejected efforts to be repatriated back to their home country on the grounds that they would face "lack of human rights and security in Turkey." The latest available figures show that nearly 1,000 Turks have sought refuge and have been granted asylum in...of all places...Greece. Yet, our Administration believes that Turkey will return to real democracy!

During the Session on Human Rights at the State Department Foreign Policy Conference on April 6 and 7, 1983, the officer lecturing from "background notes" pondered about Washington's options in returning the Turkish government to democratic rule, given the fact that Turkey's atrocious history on human rights is well known. Ankara's miserable record on human rights, even against her own minorities of Kurds, Greeks, and Jews, and against political adversaries and dissidents, is well documented and condemned in Turkey: Testimony on Torture, by Amnesty International (1985), and clearly documented with calls of concern in the October, 1983, United States Congress Staff Report on the Human Rights Situation in Turkey. The article "Daylight Express", in the February 6, 1984, issue of New York magazine is an eye opener, substantiating everything depicted in the movie Midnight Express. Furthermore, the recent racist statement of Turkish Cypriot negotiator Rauf Denktash, which stated that the Turkish people cannot live with the Greeks, is evidence of Turkey's real aims and of its continuing intransigence towards the Greek Cypriots.

Clearly, Mr. Chairman, Turkey is a racist country. By its genocidal actions against the Armenians, its decimation of the Greek community in Turkey, the denationalization campaign against its 10 million Kurdish minority and its cover-up of these actions with false allegations, the Turkish leadership has institutionalized racism at the state level.

TURKEY: AN UNRELIABLE ALLY

Forty-six years ago, Greece stood alone on the European continent fighting for freedom, first against fascist Italy and later against the combined Axis forces of Italy and Germany. The Greek resistance forced Hitler to postpone his attack on the Soviet Union by two whole months. This delay prevented the Nazis from reaching Moscow and Leningrad before the onset of the Russian winter and, as Field Marshall von Runstedt said at the Nuremberg trial, this event most likely changed the course of World War II.

This was also the time, Mr. Chairman, when the Turks refused to honor their obligations under the Treaty of Mutual Assistance between Britain, France, and Turkey, and, in a similar manner, hours before the German invasion, abrogated their Mutual Defense Alliance with Greece, signed a Treaty of Non-Aggression with Germany, and supplied the Nazi war machine with chromium and other war material throughout World War II. Albert Speer, Hitler's economist and production czar, wrote in his book, Inside the Third Reich, that Turkey's assistance to Nazi Germany enabled Hitler to continue the war for an extra eleven months.

At the same time, as reported in the Twenty-third Report to Congress on Lend-Lease Operations, Turkey received from February, 1942, throughout the duration of the war, $27 million in "lend-lease aid" to enter the war against the Axis powers, which she refused to do, appropriately earning the title of Professor Frank Weber's 1979 book, The Evasive Neutral.

This is the same Turkey, Mr. Chairman, which is the third largest recipient of U.S. aid, receiving over $10 billion, and the largest recipient of Soviet aid outside the Soviet bloc. With the just completed "non-aggression and expanded trade agreement" of $6 billion, Soviet aid to Turkey is also at over $10 billion. And this is the same Turkey which abrogates the Montreux Convention of 1936, allowing to date three Soviet Aircraft carriers, the Kiev, the Novorosiisk, and the Moskva passage into the Mediterranean. Needless to say, their cargo of modern jet fighter aircraft and helicopters pose a formidable threat to the U.S. Mediterranean Fleet.

As if these are not enough, recently, on March 21, 1986, to be exact, Turkey disputed the United States' stance regarding the passage of Soviet aircraft carriers and demanded that our nation not get involved in the decision of these matters, including the passage to the Mediterranean of the soon-to-be completed largest Soviet aircraft carrier, the Kremlin. For the record, Turkey warned regarding this issue that "if the United States seeks to revise the Montreux Treaty in its favor, it will have no luck."

This is the same Turkey, Mr. Chairman, who denied us use of the base at Diyarbakir, in eastern Turkey, for an operation to rescue our hostages in Teheran. This is the same Turkey who refused repeated requests by the Department of State to install eleven transmitters in Turkey to improve the broadcasting capabilities of programs by Radio Free Europe, Radio Liberty, and the Voice of America to eastern European countries. This is the same Turkey whose atrocious human rights violations are a disgrace to humanity, to the United States, and to the free world. This is the same Turkey, Mr. Chairman, who, at the most recent NATO meeting in Brussels on March 24, 1986, refused NATO commander General Rogers' "suggestions" for deployment of new nuclear systems in

Turkey on the grounds that these systems "go beyond 'defense' needs and may 'offend' the Soviet Union." Yet, the Administration is requesting our Congress to increase American aid to Turkey.

Finally, Mr. Chairman, this is the same Turkey whose deplorable practices and illegal actions we overlook as a panacea to our overall national security concerns and interests. Turkey's record is clear. As Turkey's Foreign Minister stated in World War II, "Turkey will not fight for the blue eyes of Poland." Therefore, Mr. Chairman, neither will Turkey fight at the present time, or in the future, to save America's integrity and the free world's freedom, unless attacked directly.

Mr. Chairman, the treatment accorded Secretary of State Shultz during his recent visit to Turkey is a perfect illustration of what we mean when we state that Ankara has nothing but contempt for the American-Turkish relationship. By insisting on linking textile trade with American aid in return for a renewal on our military installations throughout Turkey, Ankara once again establishes the use of politcal blackmail as a tool of international diplomacy.

It is imperative, Mr. Chairman, that we clearly understand and appreciate the very real danger we create to Greek security, hence to peace in the area, by over-arming Turkey. This is a crucial issue. If the Congress can understand the concerns of Israel when we provide excessive military equipment to friendly Arab states, it should also be able to understand the concern of Greece when we over-arm Turkey. The just completed trip to Athens by Secretary of State Shultz offers the United States an excellent opportunity to stabilize and improve Greek-American relations. The recent statements of the Greek government during the Shultz visit leaves no doubt that Athens would like to see a dramatic improvement take place.

In conclusion, Mr. Chairman, U.S. policy should be to support democratic reforms and repudiate false friends when they refuse to change in order to conserve their power. I am confident that this Subcommittee and the United States Senate will respond in a positive fashion to the legitimate security concerns of the people of Greece by supporting a sustained policy of equivalent balance of power in the Aegean and justice on Cyprus. Conditioning all aid to Turkey until there is a Cyprus settlement based on majority rule with full minority rights guaranteed and all Turkish troops and colonists removed from Cyprus is in the best interests of the United States and, I must add, in the best interests of the Turkish people, too.

Thank you, Mr. Chairman, and Members of the Subcommittee.

INTRODUCTION OF PANEL

Senator KASTEN. Our next panel will include Mr. Blackwelder, Mr. Rich, and Mr. Williams.

They are testifying on the same subject matter, therefore, we have asked that they appear together. You will receive the same amount of time as if you had been testifying alone, but we can save some effort by asking you to appear together.

Mr. Bruce M. Rich is the senior staff attorney for the Environmental Defense Fund. In addition to the EDF, he represents Friends of the Earth, the Izaak Walton League of America, the National Wildlife Federation, and the National Audubon Society.

Mr. Larry Williams is the Washington representative of the international programs of the Sierra Club.

We will begin our testimony with Mr. Blackwelder of the Environmental Policy Institute.

ENVIRONMENTAL POLICY INSTITUTE

STATEMENT OF BRENT BLACKWELDER, ENVIRONMENTAL POLICY INSTITUTE

POLONOROESTE PROJECT

Mr. BLACKWELDER. Thank you, Mr. Chairman. We are grateful for the opportunity to appear again. I think I speak on behalf of all of us in complimenting your for your outstanding leadership in the passage of directives to the multilateral banks last December, and in the oversight hearings that you have conducted on the Polonoroeste project. We think that it is just excellent, and we commend you for it.

Senator KASTEN. You are going to have to speak up a bit, remembering that there are people in the back who cannot hear you.

Mr. BLACKWELDER. Very good.

Senator KASTEN. Shout a little bit, if you would.

Mr. BLACKWELDER. Especially when I am commending the chairman.

Senator KASTEN. That is right. Speak up, I want everybody to hear it.

PROJECTS IN AFRICA

Mr. BLACKWELDER. I will just summarize my statement, and let my statement be included in the record.

I want to make two points. One is that we think that there are many small scale alternative projects that the banks can pursue. In the case of Africa, I have attached to my statement a list of successful small scale projects involving reforestation, erosion control, and agriforestry, which is the kind of investment that makes much more sense than the mega-projects that have failed so miserably.

In the energy area, I have made a point in my statement that here we have an opportunity to leapfrog developing countries into a state of energy efficiency. Energy efficiency is not a luxury for countries like the United States, or industrialized nations, which waste a lot of energy, but it is probably essential, according to experts such as Professor

Williams at Princeton, if we are going to improve the quality of life in the developing world, and there are remarkable opportunities in every sector—commercial, industrial, and residential—to do so.

I will provide, for the committee's records, a statement about some of those potentials, I think that you will find them truly remarkable. The good news is that if the banks seize upon this opportunity, it is possible to make these improvements in the quality of life, and maintain energy consumption at relatively the same per capita use that it now stands, which is most remarkable.

We think that it is essential that the banks comply this year with the directives this committee made about shifting away from the mega-projects into these smaller scale, much more cost-effective, and socially and environmentally positive, alternatives. We hope that the committee will continue its oversight in this regard.

[The prepared statement of Mr. Blackwelder follows:]

ENVIRONMENTAL POLICY INSTITUTE

PREPARED STATEMENT OF DR. BRENT BLACKWELDER

April 17, 1986

The Environmental Policy Institute once again is grateful for the opportunity to present testimony to this Subcommittee. We commend the Subcommittee for its oversight hearing last September on the Polonoroeste Colonization Project in Brazil and for the outstanding leadership it has shown in trying to bring about increased sensitivity to social and environmental concerns at the multilateral development banks. The directives to the U.S. executives directors to the World Bank and the other multilateral banks passed last year, serve as a model for other major nations which contribute to these banks. Citizens in industrialized countries are going to be using the U.S. directives as a model to seek similar directives from their parliaments.

The Environmental Policy Institute is concerned that the multilateral banks (as huge bureaucracies) are very slow to change. Congressional oversight is absolutely essential if the action this committee directed is actually to be implemented this year and in the years ahead.

The Environmental Policy Institute is especially concerned that the banks are not going to shift into environmentally beneficial projects as rapidly as they could. Last year, for example, the World Bank funded the Indonesian transmigration project, a resettlement scheme involving hundreds of thousands of people being moved into tropical forests displacing indigenous people, destroying forest unsuitable for agriculture, and in short doing everything which a good sensible development project should never do. The World Bank has been funding the Narmada Basin development scheme in India. This massive project would involve the construction of thirty major dams costing $6 billion, displacing over two hundred thousand tribal people. The failure of the bank to look into sensible alternative energy investments, or more gradual irrigation development using ground water or conjunctive management of surface and ground water is typical of how a model of previous river basin development is just superimposed without careful thought and planning. This is the type of project that absolutely should not continue.

Another example of a project for which funding maybe soon sought from the Asian Development Bank or the World Bank is the Bakun Dam in Malaysia. This hydro-electric scheme would destroy tropical forest and displace indigenous people for the benefit of an aluminum company in Germany who does not want to meet pollution control standards there. It is entirely inappropriate for these multilateral development banks to fund pollution flight and to proceed with such a scheme while at the same neglecting a model energy efficiency program developed for Malaysia which is a much more sensible alternative.

The Environmental Policy Institute would like to spell out in this testimony in some detail, the kinds of alternative the banks should fund. We believe that the banks have a vital role to play in addressing the deterioration of the global environment. The major elements of this deterioration are the spreading of deserts, the loss of tropical forests, and the rapid

disappearance of species. We urgently need the banks to fund extensive reforestation efforts, soil erosion control projects, agroforestry and kitchen gardens, all on a village-level scale, not on the massive scale to which they are accustomed. Ample evidence has been produced by the Office of Technology Assessment on the value of these small scale projects and their potential in dealing with the massive famine problems in Africa. Attached is a two-page list of some of these.

In the energy area, some have argued that energy conservation is a luxury applicable to those industrialized nations that waste huge quantities of energy, but that the Third World cannot afford this or has no real room for it. Nothing could be further from the truth. In fact, some experts argue that the only hope for improving the quality of life in developing countries is for them to make the maximum use of the abundance of energy efficiency improvements available in the industrial, commerical, and residential sectors.

EPI would like to call the committee's attention to a article by Professor Bob Williams at the Center for Energy and Environmental Studies at Princeton University, which makes the case that the standard of living throughout the developing nations of the world can be improved with little increase in per capita enegry consumption. New lighting is available which uses one quarter of the energy of traditional lighting and has 19 times the life. Very efficient motors are now available, again with enormous energy saving potential. Significant gains in energy efficiency and possible in manufacturing. Furthermore, there is a great opportunity which countries like Brazil and Mexico have to produce super fuel efficient vehicles, getting 60 to 90 miles per gallon. Such super fuel efficient vehicles would allow Brazil to meet the fuel demands of its expanding automobile population with little, if any, increase in imported oil.

William's asserts in his paper "Exploring the Global Potential for More Efficient Use of Energy":

> "Detailed analyses of the US and Swedish situations suggest that it would be feasible to reduce by half per capita energy use in developed countries at the same time per capita GDP increased 50-100% over the next several decades. For developing countries it would be feasible to support living standards ranging from present levels up to those in Western Europe in the 1970s with about the same per capita energy use as today, depending on the emphasis given to modern energy carriers and energy-efficient end-use technologies."

The multilateral development banks can play a major role in leapfrogging the developing countries into energy efficient economies but they are reluctant to make a big push in this very promising area.

EXAMPLES OF SUCCESSFUL SMALL-SCALE PROJECTS

SPONSORED BY NON-GOVERNMENTAL ORGANIZATIONS

The Bills H.R.(2782) and S.(1364) introduced by Representative Gilman and Senator Kassebaum address the root causes of the African famine and are designed to facilitate small-scale projects such as the ones described below. These projects would be designed and supported primarily by Non-Governmental Organizations (NGOs).

The types of NGOs active in Africa vary widely in their size and the scope of their efforts. They range from local grass-roots organizations (agricultural development groups, garden committees, etc.) to international NGOs such as CARE and the Lutheran World Relief.

Listed here are examples of successful collaborative efforts between local and international NGOs:

* CARE/Niger's Maggia Valley windbreak project. Since 1975 over 300 km of protective windbreaks have been established in the Maggia Valley, an important agricultural area. The project cost less than one million dollars and assisted local people by reducing the impact of winds while also producing fuelwood, small poles and other forest products. In addition, the productivity of millet crops has increased by 29% when sheltered by such wind breaks.

* Africare/Senegal/USAID-funded village woodlot project. In the Thies and Kaolack regions, several villages have collectively set aside productive land for tree farming. With minimal assistance by the Forestry Department, more than 100 hectares have been successfully planted. Recent efforts by the Senegalese Government are encouraging villages to take complete control of the harvesting of these trees. This helps assure that profits from the sale of the pole timber produced on the woodlots will benefit local organizations (local water improvement groups, garden associations,etc.).

* Church World Service/Algeria "Reboisement Populaire" movement. This project helped reforest and stabilize the local supply of a variety of forest products by supporting local organizations in their efforts to plant several species of cypress and juniper.

* Euro-Action ACORD and OXFAM/Upper Volta Soil Conservation projects. This successful venture helped introduce several soil conservation techniques to farmers via local organizations. Terracing, creation of banquettes and installation of small check dams increased the area's agricultural productivity by 10%.

* CARE/Chad Acacia albida project. The Peace Corps helped several local groups reintroduce this species in a successful intercropping scheme which has ensured continued soil productivity. Operating in very remote areas around Lake Chad, the project also increased local awareness for the species' value as a natural soil improver and fodder producer. Intercropping with A. albida has proven to increase agricultural productivity by up to 152%.

* Lutheran World Relief/Mauritania dune stabilization project. After several years of marginal success and high costs, this project now offers a bright spot in an otherwise dismal situation. Use of local species (Euphorbia and Prosopis) by local groups has

reduced the cost to $400 per hectare. Tree survival and dune stabilization now seem feasible.

* Cameroon/CARE Village Forestry Project. This project has successfully established village nurseries which produce over 10,000 seedlings per year. With minimal government assistance, local organizations have conclusively shown their ability to implement forestry projects.

* SODAVA/Senegal Acacia albida reintroduction project. Like CARE/Chad, SODEVA/Senegal successfully reintroduced this important species into agricultural lands around the Diourabel region. This organization is now active in several villages, supporting Acacia intercropping and woodlotting in the Ties and Sine Saloum regions.

* Lutheran World Relief/Niger's live fencing project. Live fencing to replace scarce dead branch thorn barriers, which can otherwise be used for fuel, is being introduced and readily accepted by local farmers and gardeners in Niger's Sahelian zone.

--Excerpts taken from a report published by the Non-Government Liaison Service of the United Nations

ENVIRONMENTAL ORGANIZATIONS

STATEMENT OF BRUCE M. RICH ON BEHALF OF: ENVIRONMENTAL DEFENSE FUND, FRIENDS OF THE EARTH, IZAAK WALTON LEAGUE OF AMERICA, NATIONAL WILDLIFE FEDERATION, AND THE NATIONAL AUDUBON SOCIETY

ENVIRONMENTAL CONCERNS OF MDB

Senator KASTEN. Our next witness is Mr. Bruce Rich, who is, as I mentioned, the senior staff attorney at the Environmental Defense Fund, but in addition, today, represents the Friends of the Earth, the Izaak Walton League, the National Audubon Society, and the National Wildlife Federation.

Mr. RICH. Thank you, Mr. Chairman.

I appreciate very much the opportunity to appear before the subcommittee today concerning appropriations for the multilateral banks in fiscal year 1987. I am testifying today on behalf of five national environmental organizations, which together have more than 5 million members and supporters nationwide.

These organizations wish to express their appreciation and gratitude for the leadership role that the chairman of the subcommittee has shown over the last 2 years in promoting improved attention by the multilateral banks to environmental concerns, in particular the special hearing that the subcommittee held last September 8 concerning the environmental aspects of multilateral bank projects, and the legislation which you, Mr. Chairman, shepherded through the Congress last year, concerning the multilateral banks, among the most important U.S. international environmental initiatives of recent years.

There are heartening examples of how the Congress can spur the United States to use its influence in public international financial institu-

tions in farsighted and imaginative ways for the benefit of all, both in the developing and in the industrialized countries.

The national environmental organizations that I represent today support the administration's fiscal year 1987 appropriations request for the multilateral banks, provided that the administration continues and augments its actions through our representatives to the MDB's, and through other channels, that convey to the banks' management and to other countries the seriousness and urgency with which the United States views the inadequate attention to environmental concerns within these institutions.

ADMINISTRATION SUPPORT OF ENVIRONMENTAL CONCERNS

Mr. Chairman, the administration has shown growing interest and concern in promoting environmental concerns within the MDB's over the past year, something which certainly is heartening and deserves praise. On the other hand, the multilateral banks themselves have made very little progress, where indeed there has been progress, and progress has been very slow. The only possible exception to that is the Inter-American Development Bank, which has taken a couple of initiatives over the past year to institute a system of environmental review of its projects. These are first steps, but this could result in real institutional reforms. I have attached more material concerning that for the record.

WORLD BANK PROPOSALS

Unfortunately, overall, the MDB's are continuing to approve and finance unsound, environmentally destructive loan proposals. In particular, the World Bank, over the past year, approved two gigantic schemes—the loans for the Indonesia Transmigration Program, and for the India Narmada River Development Program—huge schemes which risk serious environmental impacts on as great a scale as the now infamous World Bank-financed Polonoroeste Program, which has been the subject of such concern to this subcommittee, and to you, Mr. Chairman, personally.

In my prepared statement, I have submitted a few facts which update the situation in that huge project in northwest Brazil. One of the most disturbing facts that we have learned of recently is that there are now more than 200,000 individuals in the Brazilian State of Rondonia who are infected with several highly virulent strains of malaria. Most of these individuals have come from among the more than half a million migrants who have poured down the World Bank-financed road into that area over the past 3½ years.

INDONESIA TRANSMIGRATION PROGRAM

There is more material in my prepared statement, again concerning the Indonesia Transmigration Program, approved last May. A fifth loan for that program was approved last May by the World Bank for $160 million to finance the site selection and planning for the resettlement of 300,000 families from Java to pristine tropical forest areas in New Guinea and Borneo.

INDIA NARMADA IRRIGATION SCHEME

The second project which I referred to, the India Narmada irrigation scheme, in its first phases, will displace over 100,000 people, mainly of tribal and minority origin, in the western part of India. That is a series of dams for irrigation along the largest westward flowing river in all of India.

OVERSIGHT OF WORLD BANK PROJECTS

I am going to conclude, to leave a little more time for questions. It is critical, Mr. Chairman, that the subcommittee continue and strengthen its oversight of the multilateral development banks' environmental performance, and particularly in implementing the environmental legislation of last December. One way in which this oversight might be continued would be for the subcommittee to pursue further inquiries concerning the environmental and socio-cultural problems in these recently approved multilateral bank projects, the India and Indonesia projects that I have just referred to.

There is a third project that has been analyzed in some detail by the Natural Resources Defense Council, a loan for cattle grazing and ranching in Botswana, an area which is already seriously over-grazed, where the World Bank has had two previous loans for the same activities which have been demonstrated failures according to the bank's own appraisals.

I am going to conclude, Mr. Chairman, by noting four other issues which were not addressed in the legislation last year, which in our opinion should receive greater scrutiny.

No. 1, the need to raise the issue of the MDBs environmental performance not only with other donor countries, but with borrower developing nations.

No. 2, the need for clear incentives for MDB staff to address environmental concerns. Currently, in all the banks, no loan officer or project officer really gets any credit or any incentive for taking the time to incorporate environmental concerns into projects.

No. 3, the need for the MDB's to loosen their tight control of access to information on prospective projects. We feel that greater access to information on planned projects, which could be shared with concerned groups, nongovernmental groups in the developing countries, and in the donor countries, could only contribute to the information that goes into these projects, and to improve the environmental planning.

STRUCTURAL ADJUSTMENT AND SECTOR LENDING

Finally, we are concerned about the question of the environmental implications of an increasingly important area of multilateral bank activity, nonproject, so-called, structural adjustment and sector lending. This is particularly important for the World Bank. Many of these loans can have both direct and indirect environmental implications. In some cases, the pressure to quickly expand exports at the cost of domestic consumption can also create pressure to over-exploit the resource base of developing countries.

We commend you, Mr. Chairman, for your recent questions to the Secretary of the Treasury which, among other things, addressed the effects of nonproject lending on the environment, and we urge you to continue to pursue these inquiries in more depth, and to consider the possibility of legislative language which would direct the U.S. Executive Directors of the World Bank and the other multilateral development banks to promote measures to ensure the environmental and natural resources concerns are not neglected in the loan conditions and policies associated with this increasingly important area of multilateral bank activity.

Mr. Chairman, that concludes my statement. Thank you very much.

[The prepared statement of Mr. Rich follows:]

PREPARED STATEMENT OF BRUCE M. RICH

ON BEHALF OF

NATIONAL WILDLIFE FEDERATION
NATIONAL AUDUBON SOCIETY
ENVIRONMENTAL DEFENSE FUND
FRIENDS OF THE EARTH
IZAAK WALTON LEAGUE OF AMERICA

I. Introduction

Mr. Chairman, I appreciate very much the opportunity to appear before this Subcommittee concerning appropriations for the Multilateral Development Banks (MDBs) in Fiscal Year 1987. I am Bruce M. Rich, senior staff attorney at the Environmental Defense Fund (EDF). I am testifying today on behalf of five national environmental organizations: EDF, Friends of the Earth, U.S., the Izaak Walton League of America, the National Audubon Society, and the National Wildlife Federation. Together, these organizations have over five million members and supporters nationwide. EDF has over 50,000 members and the the National Wildlife Federation four and one half million members. Friends of the Earth, U.S. has 20,000, the Izaak Walton League of America, 45,000, and the National Audobon Society one half million members.

The five national environmental organizations I represent today wish to express their gratitude and appreciation for the leadership role the Chairman and the Subcommittee have shown over the past two years in promoting improved attention by the Multilateral Development Banks to environmental concerns. We wish to thank you for recently raising the issue of the environmental performance of the Inter-American Foundation and the African Development Foundation in hearings before this Subcommittee as well as for the detailed environmental questions you posed to the Secretary of the Treasury in his appearance last month before the Subcommittee. The special hearing your Subcommittee held last September 18th concerning environmental considerations in MDB projects, and the MDB environmental legislation which you, Mr. Chairman sheparded through the Congress last year are among the most important international environmental initiatives of recent years. These are heartening examples of how Congress can spur the United States to use its influence in the public international financial system in farsighted and imaginative ways for the benefit of all, both in the developing and industrialized nations.

The national environmental organizations I represent today support the Administration's FY 1987 appropriations requests for the MDBs, provided the Administration continues and augments its actions--through our representatives to the MDBs and through other channels--that convey to the banks' management and to other countries the seriousness and urgency with which the United States views the inadequate attention to environmental concerns within these institutions. We urge the Subcommittee to closely scrutinize the progress of the Administration and the MDBs in carrying out the measures set forth in Section 540 of House Joint Resolution 465.

The remainder of my statement will first review what progress the multilateral banks and the Administration have made to date in implementing the provisions of the environmental legislation sponsored last year by the Subcommittee. Although the Administration has made highly praiseworthy efforts to begin to implement and promote the measures called for in the legislation, the banks themselves, with the possible suggestion of the Inter-American Development Bank, have done little of substance. Worse, over the past year the MDBs, especially the World Bank, have prepared and approved several huge projects which are the subject of international concern and outcry and which risk greater ecological and socio-cultural destruction than many previous projects which turned out to be environmental disasters. Two projects of particular concern, Mr. Chairman, are the Indonesia Transmigration Program and the India Narmada River Development Program, both financed by the World Bank.

I said exactly these same words last year Mr. Chairman when I appeared before this Subcommitee, but I must repeat them since if anything the environmental problems caused by poorly conceived and implemented MDB activities have become increasingly grave and urgent: The banks' continued neglect of ecological concerns in their activities should be a matter, in our opinion, of the utmost concern to this Subcommittee since it is resulting in poor projects, poor loans, needless destruction and human suffering, and the tragic squandering of precious investment resources for the developing world as well as in waste of U.S. taxpayers' money.

I will conclude my statement with several suggestions concerning how the Subcommittee might continue and enhance its critically important environmental oversight of the multilateral banks.

II. Encouraging Actions by the Administration

The growing interest and concern the Administration has shown in promoting environmental concerns within the MDBs is heartening and deserves praise. The organizations I represent today wish to publicly express their appreciation for the measures that the Treasury Department has taken, and more recently, for the increasing involvement of the State Department in these matters. For example, both the Treasury and State Departments now have a staff person engaged primarily in the environmental review of multilateral development bank activities. The inter-agency MDB loan review process that is carried out regularly by the Working Group on Multilateral Assisance is also giving a higher priority to environmental concerns. We understand that the Treasury Department is directing the U.S. Executive Directors of the MDBs to call for board meetings at which the environmental performance of the banks and ways it can be improved will be at issue. We have been briefed over the past few months by both the Treasury and State Departments on the measures they are currently undertaking to raise the issue of the banks' environmental performance with other major donors.

Still, we think that in the future the Administration needs not only to continue, but to increase its pressure on the MDBs to promote environmental reforms, as well as to intensify its efforts to raise the question of the environmental performance of banks not only with other donor nations but also with developing countries. In the banks themselves, progress--where it exists--has been extremely slow. We think the Treasury

Department needs to show more vigor in promoting the three key environmental reform measures set out in the legislation--increased environmental staffing, inclusion of environment and public health ministries and NGOs in the project cycle, and funding of a greater proportion of environmentally beneficial projects. The Treasury has sent out inquiries concerning these measures through the U.S. Executive Directors of the MDBs, but it has not followed up for the most part on the responses it has received from these institutions, which mostly demonstrate, particularly in the case of the World Bank, a lack of commitment to any actions except continuing busines as usual. The only possible exception is the IDB, which--partially we think in response to prodding by Treasury and State--has recently taken measures which have the potential to institute an effective system of environmental review. These measures will only bear fruit if the IDB employs more environmentally trained staff to ensure their implementation.

Unfortunately, the MDBs are continuing to prepare and approve unsound and environmentally destructive loan proposals, such as the Indononesia Transmigration projects and the India Narmada River Development Program and there is a clear need for a more in depth substantive review of the implications and risks of such projects by the U.S. or other Executive Directors.

In short, Mr. Chairman, the continued and persistent oversight of this Subcommittee is absolutely necessary to ensure that the Executive Branch does not waiver in the at times difficult task of ensuring real environmental reform in these large international bureaucracies.

III. Little Progress by the MDBs in Improving Their Environmental Performance

In contrast to the increasing commitment of the Executive Branch to promoting improved environmental quality in MDB activities, the banks themselves have done little of substance to commit more resources and institute effective procedures to environmentally assess their projects, nor to orient their lending in less environmentally destructive directions. The only possible exception is the Inter-American Development Bank, which has undertaken initiatives over the past six months which are first steps towards instituting a functioning system of environmental review for ongoing and prospective projects. Attached to this statement is a separate letter, Mr. Chairman, which analyzes in more detail the environmental progress of the IDB.

The Subcommittee's legislation requires the U.S. Executive Directors to promote in the MDBs key environmental reform measures to: increase environmental staffing; involve environment and public health ministries as well as non-governmental environmental and indigenous peoples' groups in project planning and implementation; and to increase the banks' lending commitments so that they finace a greater proportion of environmentally beneficial projects. In all of these areas the banks have made virtually no progress, although, as I mentioned, the IDB is at least undertaking measures to promote more systematic environmental review of projects. The IDB's implementation of these measures will be ineffective, however without specialized environmental staff expertise to help identify and where necessary modify environmentally risky projects.

Without adequate environmental staffing, it is impossible for the MDBs to assess the environmental aspects of their

activities, regardless of the theoretical merits of their publicly stated environmental policies.

I would like to cite for the record one fact which more than any other symbolizes the current priorities of the MDBs concerning the importance of environmental staffing. The World Bank employs nearly four times more professionals in its public relations division--known as Information and Public Affairs--which has a professional staff of at least 25, than in its environmental office, which is staffed by seven professionals, only three of whom are involved in any systematic project review. In fact, the World Bank has almost twice as many professionals in its Speechwriting Unit--five--than the environmental office employs in attempting to review prospective projects in key lending sectors for environmental impacts. Until the multilateral banks view the environmental aspects of development as something that is at least as worthy of staff resources as their public relations efforts, I think we are going to continue to see major problems in the quality of their projects.

Nor have the banks made so far any substantive progress towards greater involement of of ministries of the environment and public health, as well as of non-governmental organizations in project planning and implementation.

The only positive environmental initiative of the World Bank the past year is a long term research project to better incorporate environmental concerns into its cost benefit methodologies and long term country and economic planning exercises. If successfully implemented, this effort could result in substantially better projects from an environmental standpoint several years from now. Since many environmental concerns are not susceptible to quantification, and because quantifiable information of all kinds is either lacking or unreliable in many developing countries, this effort is at best only a small part ofthe solution to environmental problems in bank funded activities.

The measure in the legislation with the most far reaching implications for promoting development that will truly be both economically and environmentally sustainable in the long term is that which calls upon the U.S. Executive Directors to promote a greater proportion of funding for environmentally beneficial projects that involve the use of smaller scale, alternative technologies. So far the MDBs are continuing to finance many large-scale, environmentally destructive projects--many of dubious long term economic benefits--and are neglecting smaller scale, evironmentally beneficial alternatives even when they are economically less risky. In fact, over the past nine months the World Bank has approved loans for two huge schemes--the Indonesia Transmigration Program and the India Narmada River Development Program--which involve greater environmental, socio-cultural, and economic risks than any other projects approved by the MDBs in recent years. It is extremely distressing that the Bank could commit itself to such projects after more than two years of intensive scrutiny by the U.S. Congress and Administration, and in light of the disastrous and tragic consequences of the World Bank financed Brazil Polonoroeste Program.

Before setting forth for the record the grave environmental and economic risks associated with these projects, which are of extreme concern to the groups I represent today, I would briefly like to call the attention of the Subcommittee to the most recent reports of the tragic consequences that have ensued in the World

Bank Polonoroeste project in Northwest Brazil. This project has been of special concern to the Chairman and the Subcommittee, and this concern has played an important role in exerting pressure on the World Bank to use its leverage and undertake measures to mitigate some of its worst environmental consequences. Regrettably, much of the damage is irreversible and the project--which involves nearly a half billion dollars of loans for road construction and agricultural settlement in an area of tropical forest three quarters the size of France--has become what is probably the single most notorious failure in the recent history of multilateral lending.

In the past four years more than 500,000 migrants have come down the World Bank financed road and most have been victimized on a tragic scale: land titling, agricultural extension and public health services have been overwhelmed by the massive migration and the mostly poor tropical forest soils are incapable of supporting the annual crops the settlers are most accustomed to. More recently, there are reports from Roman Catholic church organizations that in some areas an appalling situation of anarchy, land speculation and violence has developed, with instances of the enslavement and disappearance of migrant families. Finally, much of the World Bank project area is now a national public health emergency area, with more than 200,000 cases of several strains of highly virulent malaria; most of the cases have appeared among the migrants who have doubled the population of the state in four years. Attached to my statement for the record is a recent article from the Cultural Survival Quarterly which describes in more detail the most recent events in this disasterous project.

IV. Two Recently Approved World Bank Projects with a Potential for Environmental Disaster: the Indonesia Transmigration V Project and the India Narmada River Development Scheme

In spite of the Polonoroeste debacle, the World Bank and other MDBs continue to finance massive agricultural colonization schemes in the earth's rapidly dwindling pristine tropical forest regions, although such projects have had a dismal record of failure over the past twenty years. In fact the World Bank approved last May, in the face of growing international controversy, a loan of $160 million to finance site selection and planning for the resettlement of 300,000 families in Indonesia from Java to largely pristine tropical forest areas in New Guinea (Irian Jaya) and Borneo (Kalimantan). This was only weeks after the Bank publicly acknowledged that it had suspended outstanding loan disbursements of over a quarter of a billion dollars for Polonoroeste pending resolution of environmental and Amerindian problems in the project. The Fifth Indonesia Transmigration loan, as it is called, has raised cumulative World Bank financing of what is the largest resettlement scheme on earth to nearly $600 million. The Asian Development Bank has also been involved in the financing of Transmigration. Although results of earlier Bank financed transmigration projects have been mixed, due to the relatively poor quality of soils typical of tropical forest areas, the Bank has justified its continued support by claiming that it is trying to make the Indonesian government's transmigration program more sound environmentally. But the program--whose most immediate environmental impact will be massive deforestation in the largest remaining rainforests in Asia--is ecologically disastrous in its very conception.

Mr. Chairman, there is a blatant contradiction between the stated priorities of the Indonesian government for the current phase of transmigration and the justifications of the World Bank

for its involvement in this program. The Bank claims it is seeking to improve the quality of the Transmigration Program through an emphasis on better site selection and settlement planning. But the Indonesian government's transmigration goals under its current, fourth five year plan (Replita IV) are more ambitious and accelerated than ever before. The Indonesian government has set a target of resettling 750,000 families in the years 1984-89, a 50% increase over the third five year plan (Replita III). The World Bank Transmigration V loan is financing the planning and site selection for the relocation of 300,000 of these families.

Under Replita IV, the entire land area devoted to Transmigration since 1969 will be more than doubled, and there will be a an unprecedented increase in the populations of the areas for which the World Bank Transmigration V loan is financing the site selection: this phase of Transmigration will increase the population of Irian Jaya (western New Guinea) by 52%, and Eastern and Central Kalimantan (Borneo) by 46% and 31%, respectively.

There is no way the fragile tropical forest environments of Irian Jaya and Kalimantan can absorb in a sustainable and rationally planned fashion such a rapid and dramatic population increase. As with Polonoroeste, the World Bank hopes its planning investment will promote, among other things, the cultivation of perennial tree crops by the transmigrants, since the World Bank itself concluded in an internal review of its earlier transmigration investments in 1982 that most annual food crops had failed on the difficult tropical forest soils. Yet, even more than in previous transmigration efforts, the accelerated resettlement targets have led the the Indonesian Ministry of Transmigration to insist that the transmigrants be self sufficient in raising food--a scenario for disaster and tragedy on soils incapable of supporting annual cropping. But if the Indonesian government succeeds in implementing its transmigration targets in the World Bank site selection areas, many settlers will be forced into this tragic quandry. As I mentioned, the population of Irian Jaya alone is slated to increase by more than 50% by the end of the decade. Moreover, the scale of settlement will be much greater than was planned in the Polonoroeste disaster and the Bank's effective leverage to ensure ecologically sustainable site selection is much less, since it is not directly financing any implementation activities.

In fact, the World Bank in its Fifth Transmigration loan is financing the planning of resettlement on such a scale that, if it is ever realized, will completely overwhelm the absorbtive and administrative capacities of the targetted areas. For example, the Indonesian province of Irian Jaya (Western New Guinea) has a current annual budget of $91 million dollars. The World Bank is financing site selection activities for the resettlement of 55,000 families in Irian Jaya, and the Bank in its appraisal report for the Transmigration V loan estimates the cost of resettling a family with all the necessary facilities in Irian Jaya at $7000.00--a total of $385 million over a five year period. In other words, the cost of resettling families in Irian Jaya according to the Indonesian government's and World Bank's stated targets would consume more than 85% of the province's current annual budget. If these unrealistic resettlement goals are implemented, there is a very substantial risk that the promised facilities and services that would give the settlers at least a slim hope of success will not materialize, and that a Polonoroeste-like situation will repeat itself.

Most disturbing is the fact that the emphasis for Transmigration site selection, including the World Bank financed

component, continues to be in pristine, primary tropical forests--80% in fact. Clearing the transmigrant sites in the fourth five year plan alone (Replita IV), according to one estimate, will result in the deforestation of 3.3 million hectares, and the eventual scope of destruction could be considerably larger because the generally poor quality of soils will force migrants to deforest still other areas after only a few years. Worse, the accelerated Transmigration resettlement targets will increase pressures for already widespread mechanical land clearing, which results in further destruction of whatever land fertility is present, aggravating even more the pressures to deforest greater areas.

While under Transmigration still more pristine tropical forest is to be cleared for agriculture, there are huge areas of already deforested grasslands (alang-alang) and secondary forests that lie barren and could be rehabilitated for sustainable agricultural use. According to one Indonesian study, rehabilitation of alang-alang grasslands for agricultural settlement could double the area in Indonesia under permanent cultivation--some 17-18 million hectares.

Even more paradoxical is that fact that Western aid agencies are currently channelling approximately three quarters of their forestry assistance to Indonesia for environmental rehabilitation activities such as watershed management, reforestation and land rehabilitation--while some of the same agencies are simultaneously financing the deforestation, watershed erosion and land deterioration that is occuring in many transmigration sites.

That the World Bank would participate in such a scheme is all the more amazing when, according to one recent study commissioned by the Indonesian government, more than 300,000 human beings are already living in transmigrant sites selected under previous plans which are ecologically incapable of sustaining them in even the most marginal conditions. The problems in these sites are increasing, and are a growing source of potential social and political unrest.

Mr. Chairman, the MDBs' involvement in Transmigration is destined to fail as a regional and rural development program, and it is urgent that the World Bank and Asian Development Bank cease their involvement and find sounder alternative investments in Indonesia. Attached to this statement, for the record, are a number of newspaper clippings--from Australia and from Indonesian newspapers translated by the U.S. Embassy in Jakarta--that illustrate the seriousness of the environmental and sociological problems associated with Transmigration.

In concluding this discussion of Transmigration, I would like to call the Subcommittee's attention for the record some details of the latest World Bank Transmigration loan that should be subjected to more scrutiny (I understand that some of these issues are already being addressed in recent questions which you, Mr. Chairman, submitted to the Secretary of the Treasury):

1. The loan of $160 million has no appraised rate of economic return, but the Bank asserts in its appraisal report that it can be justified because of its unquantifiable economic benefits--but no attempt is made to evaluate and compare what may be greater unquantified environmental and socio-cultural risks (Staff Appraisal Report, Indonesia Transmigration V Project, pp. 36 and 37).

2. 80% of the loan is to go for consulting services, a substantial portion of which will be purchased from expatriate firms in Northern Europe. The Bank claims in its appraisal report

that one of the major objectives of the project is "the development of the national consultant industry by the association of foreign and national consultants under the very large consultant component." (Appraisal Report, p. 10)

3. The Bank's appraisal report notes that one of the "unquantifiable benefits" of Transmigration has been that, through resettling large numbers of people to remote regions, it "has increased the economic justification of infrastructure such as roads and bridges in sparsely populated areas." (Appraisal Report, p. 6)

4. The Bank notes in the Project Appraisal Report that resettlement costs will be higher than previous transmigration projects--$7000 per family--because of geographical remoteness (Appraisal Report, p. 35), and, what the Bank does not mention, lower average soil quality.

5. The Bank's own estimated economic rates of return for the agricultural activities of the settlers is below its estimates of the opportunity cost of capital in Indonesia (10%) and thus also what it would normally directly finance (Appraisal Report, p. 37) But the Bank again justifies its financing of the planning and site selection for this phase of the scheme because of numerous "unquantifiable benefits."

6. The Bank notes that there is a substantial risk that the Indonesian Government will not be able to meet its ambitious plans of resettling 300,000 families within the timeframe of the Bank financed planning activities: "The major project risk would be that the GOI may be unable to use the information provided under the project in a timely manner due to financial and managerial constraints." (Appraisal Report, p. iv.) Further on, the appraisal report reassures us in one brief sentence that the plans prepared from this $160 million investment would in such a case "not be lost as they will still be useful for other regional or agricultural...projects or for subsequent transmigration programs." (Appraisal Report, p. 11)

Mr. Chairman, another project of great concern to environmental and indigenous peoples' rights groups all over the world is the Narmada River Development Program in Western India. The World Bank approved two loans totalling $450 million last year for the initial phase of the first project of this multi-project program, one of the largest integrated irrigation and dam schemes ever conceived. The greater Narmada program envisages the construction of 30 major dams, 135 medium dams and over 3000 small dams over the next 40 to 50 years to provide irrigation and hydroelectric power to an area covering parts of four states in Western India. The entire scheme will forceably displace more than two million human beings, mostly of tribal and minority origin, constituting 5% of India's entire tribal population. The total cost is hard to estimate, but would certainly run into the tens of billions of dollars.

The two World Bank loans approved last year are for the first phase of the Sardar Sarovar Project, which will have an estimated total cost of nearly $6 billion. The first phase loans are for dams on the Narmada River, the largest westward flowing river in India. These dams will forceably displace nearly 100,000 people, mainly tribal minorities. A 210 kilometer lake will be created; there is a substantial risk of unsustainable ecological stress from the movement of the displaced people up into the hills surrounding the reservoir. These areas are already suffering from deforestation, sheet erosion and other environmental degradation caused by poor land use and population pressures.

Internationally, great concern has been raised in India and elsewhere concerning the ability of the World Bank and the affected states in India to ensure the timely preparation and implementation of a resettlement plan for nearly 100,000 people, particularly in light of the fact that the record of neither Indian state governments nor the World Bank has been particularly good in the past in ensuring adequate resettlement and compensation measures in much smaller schemes. Clearly, a project of this kind and scale involves much greater than average environmental risks associated with water borne diseases and irreparable deterioration of the already seriously degraded watershed region around the prospective reservoir. The latter risk, in particular, would have disastrous economic impacts on the project, resulting in premature siltation and clogging of the reservoir and irrigation channels.

But not only are the environmental risks greater than average for this huge scheme, the Bank itself concedes in its project documents tnat its huge scale entails a lower economic rate of return and higher implementation risks than alternative investments: "Worldwide experience would also suggest that large scale basic infrastructure projects generally tend to have low rates of return when evaluated only on their immediate quantifiable benefits and costs." (Staff Appraisal Report, India Sardar Sarovar Dam and Power Project, p. 11; the Appraisal report asserts that the project will have additional unquantifiable economic and social benefits--but no mention or evaluation is made of the unquantifiable environmental and social costs.) "The project, however, does face greater risks than normal irrigation, power, and water supply operations in India, given its immense size and complexity. As one of the largest investments of its kind built anywhere, its implementation could be subject to delays and cost increases. It will absorb large amounts of human and financial resources of the benefitting States." (President's Report, Sardar Sarovar Dam and Power Project, p. 27.) Indeed, the degree of bureaucratic and institutional coordination to ensure a moderate degree of economic success of this project will be greater than any development scheme the MDBs have attempted before in India.

I have attached for the record several documents and newspaper articles, mainly from India, documenting the growing concern in India and elsewhere over the impacts of this project.

In light of all of these risks--and in light of increasing evidence of the high rate of failure of large scale water projects in the developing world and elsewhere--one is again forced to ask why the World Bank does not consider environmentally and socio-culturally less risky alternatives, particularly in cases such as this where many of these risks directly menace the economic sustainability of the project.

The World Bank's involvement in Narmada should be closely scrutinized since it is currently appraising two more loans totalling $420 million for further investments in the Sardar Sarovar dam and resettlement activities. These loans, I understand, probably will come before the World Bank's Board for approval in early autumn this year.

V. The Need to Support the FY 1987 Administration MDB Appropriations Request

In spite of the generally disappointing progress of the MDBs in responding to the need for increased attention to environmental concerns, the five national environmental organizations I represent today do support the Adminstration's FY 1987 appropriations request for the banks and urge the

Subcommittee to approve it in full. The organizations I represent are not now in favor of increased appropriations for the MDBs--we maintain that the MDBs must first make better use of their existing resources through a reorientation of their priorities to focus more on ecological concerns. But the modest Administration FY 1987 appropriations request of $1.392 billion already represents a substantial cut, in both real and absolute terms, from the level at which we were supporting the MDBs several years ago. For example, in FY 1985 Congress appropriated $1.548 billion for the MDBs.

Moreover, approving the Administration's FY 1987 request is essential for the U.S. to fulfill the pledges it has already made in previous international negotiations concerning the financial replenishments of the paid in capital and concessional lending resources of the banks. For the U.S. to reneg on these negotiated agreements with other donor nations will undermine its credibility in efforts to call the attention of these same nations to the need for environmental reforms within the MDBs.

At this time, we think that reducing MDB appropriations below the annual amounts necessary to meet current U.S. commitments will not only undermine U.S. influence on these institutions, but internally undermine the potential of the MDBs to assume the positive environmental role they have all pledged themselves to realize.

We think that this Subcommittee has shown the way to promote positive reforms within the MDBs with the legislation passed last December 19th and through the other oversight functions it has exercised over the past year. Thus, I would like to conclude with some suggestions on how the Subcommittee might continue and strengthen its leadership role in promoting ecological concerns in the MDBs in coming months.

VI. Conclusion

Mr Chairman, the national environmental organizations I represent today are grateful for the initiative and leadership you have shown over the past two years in promoting more attention to environmental matters in the MDBs. The legislation sponsored by this Subcommittee and passed last December 19th is a critical step in the arduous task of promoting reforms in the MDBs such that their projects are environmentally sustainable rather than undermining the resource base on which all development depends.

We believe there is an increasingly serious credibility gap between the stated policies and intentions of the MDBs concerning the environment and their real commitment of resources and institutional priorities to address these issues. But there have been isolated instances of progress over the past year, particularly in the Inter-American Development Bank. I might also note that the World Bank is making belated but good faith attempts to mitigate the environmental damage that its loans in Northwest Brazil helped to unleash (although much of the damage, such as rampant deforestation and endemic malaria now appear to be beyond any institution's control) and that the Inter-American Development Bank has required the Brazilian authorities in the state of Acre prepare an adequate environmental protection plan before the IDB begins disbursements for road construction and improvement activities in that region. These positive measures, it must be pointed out, have occurred however in the context of projects that have become internationally notorious for their ecological destructiveness; they are only mitigation measures for

basically unsound development.

It is critical, we believe, that the Subcommittee continue and strengthen its oversight of the MDBs' progress in implementing the environmental legislation of last December.

One way in which this oversight might be continued would be for the Subcommittee to pursue further inquiries concerning the environmental and socio-cultural problems in a number of recently approved MDB projects that are a matter of increasing international concern and protest. Two programs in particular that we have indicated are of special and immediate concern are the World Bank financed Indonesia Transmigration and India Narmada River Development schemes.

We believe that there are four other issues which were not addressed in the legislation which should receive greater scrutiny: the need to raise the issue of the MDBs' environmental performance not only with other donor nations, but with borrower, developing nations; the question of career incentives for MDB staff to address environmental concerns; the MDBs' tight control of access to information on prospective projects; and the question of the environmental implications of non-project, structural adjustment lending which is becoming increasingly important for the MDBs, particularly the World Bank.

First, the natural corollary to current efforts of the Administration to call the attention of other donor nations to the need for improved environmental performance by the MDBs is to undertake similar initiatives with major MDB borrowers. Second, there are great pressures on MDB staff to expedite the project cycle and avoid delays in loan preparation and disbursement. A project officer has no incentive to incorporate environmental concerns into project planning, since this risks slowing down the project cycle. The banks must create institutional and career incentives to ensure that environmental whistle blowers are rewarded, which is not now the case. We suggest that the Subcommittee might want to pursue these first two issues through inquiries to the MDBs submitted through the Treasury Department and U.S. Executive Directors.

Third, greater access to information on MDB projects by concerned and affected interests could do much to improve the quality of MDB lending. The banks withhold information on projects from the public and in some cases from national legislatures in member countries. Rare public discussion of projects prompts the MDBs to fear criticism and take a posture which is often perceived as defensive, uncommunicative and arrogant. But early public discussion should instead be seen as an opportunity for dialogue and the development of information and ideas which could improve the quality of MDB lending. We realize that this question is not a simple one, since the MDBs maintain that greater public access to information would undermine their relationships with some host countries. Nevertheless, we think the present situation could be much improved without impinging on essential mattters of confidentiality between the banks and member nations. Further investigation is needed, through Congressional hearings or inquiries to the Treasury Department to identify ways in which access to information on MDB activities could be increased for national legislatures, NGOs, and academic bodies in both developing and developed nations.

Finally, the macro-economic conditions of non-project structural adjustment and sector loans have numerous ecological implications, since the thrust of these conditions is to reorient economic sectors and whole national economies towards export led

growth. Increased pressures to expand exports at the cost of domestic consumption may create pressures to overexploit the resource base of developing nations. On the other hand, the increased emphasis on non-project lending in the MDBs may also present opportunities to promote qqqq environmentally more sustainable policies in developing countries. Mr. Chairman, we wish to commend you for the questions you have already submitted to the Secretary of the Treasury concerning the effects of non-project lending on the environment. We urge you to continue to pursue these inquiries in more depth with the Treasury Department and to consider the possibility of legislative language which would direct the U.S. Executive Directors to promote measures within the World Bank and other MDBs that will ensure that environmental and natural resource concerns are not neglected in the loan conditions and policies associated with this increasingly important area of MDB activity.

Mr. Chairman, that concludes my prepared statement. Thank you very much.

ENVIRONMENTAL DEFENSE FUND

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April 17, 1986

The Honorable Robert Kasten
Chairman, Subcommittee on Foreign
Operations
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Chairman Kasten,

I am writing to submit additional information for the record of the hearing held by your Subcommittee April 17th, 1986 concerning Fiscal Year 1987 appropriations for the multilateral development banks. In particular, I wish to expand upon the comments in my prepared statement concerning the Inter-American Development Bank. This institution has made significant and promising steps towards instituting a functioning system of environmental review in the past six months.

Before going into detail concerning the IDB's recent environmental progress, it should be emphasized, however, that: 1) a comprehensive environmental review system is still not in place, despite encouraging steps in that direction; 2) only constant and continual scrutiny by the Subcommittee, the Treasury Department and the representatives of other member countries will ensure that the Bank's recent initiatives in the environmental area eventually result in a general improvement of project quality; 3) more forthright and substantive communications between the bank and and outside groups concerning its past and current approach to environmental matters would dispel public skepticism and concern that previous external communications of the bank on these issues over the past three years have created.

The environmental progress of the IDB over the past six months has occurred in substantial part we believe because of the continual prodding and oversight of the U.S. Treasury and State Departments but also because some of the banks' senior management now appear to be addressing environmental concerns with more initiative and concern than in the other MDBs. The principal existing environmental review entity in the IDB, the Committee on the Environment, has reviewed in depth a total of ten projects since its establishment in November, 1983. In one case, review by the Committee led to the Bank's dropping a proposed road project in Brazil from the project pipeline since it would have directly threatened a protected area financed by the World Bank in the same region. The U.S. Treasury Department has stated that the Committee's review of environmental aspects of these projects was "in almost all cases...thorough and well directed." However, it must be recalled that in the two year five month period of the Committee's existence over 160 projects have been approved by the

IDB and that the majority of these projects were in environmentally sensitive sectors such as energy, agriculture and transportation.

It would appear then, that the Committee on the Environment has the potential to serve as a locus of high level accountability for environmental concerns and to review in depth a limited number of particularly sensitive projects. No mechanism currently exists, however, to ensure effective environmental review of the vast majority of IDB projects with potentially adverse environmental impacts, although a first important step was made late last year to begin to address this concern.

We recently learned that in October, 1985 the Manager of the Project Analysis Department--who is also the Chairman of the Committee on the Environment--circulated a memorandum to the Bank's technical and field offices which requires the identification of all projects both in execution and in preparation which may risk "significant environmental impacts." General categories of projects are listed which may incur such impacts (hydroelectric, irrigation etc.) and a set of sound environmental management standards are also set out which such projects are to meet.

This action is certainly deserving of praise, since it could be the first step in establishing a comprehensive system of environmental review in the IDB--something which does not exist in any of the other banks. Nevertheless, it must be emphasized that the directive of the Manager of the Project Analysis Department is so far only a promising beginning. Clearly, specialized environmental staff expertise will be needed in some instances to assist in both the identification of environmentally significant projects by the Projects Analysis Staff and to serve as advisors or consultants in helping to incorporate mitigatory measures into such projects or to redesign them once they are identified.

In other areas addressed by the Subcommittee's legislation there are no substantive signs of improvement over the bank's past performance. The level of environmental staffing has not increased--a measure which we feel is essential to ensure the truly effective and continual functioning of the review process the Projects Analysis Department has initiated. In addition, short term environmental training courses for all bank technical and regional staff would contribute substantially to improving environmental aspects of IDB loans, especially since the bank itself has reiterated several times that it prefers a more 'holistic' approach to environmental review of projects which would involve all professional staff, and not just environmental specialists. Such training courses could be developed and implemented by the Employment and Development Division of the Administrative Department, which already administers training courses for bank staff in other disciplines. Although the bank has endorsed in principle the legislative recommendations concerning greater involvement of ministries of the environment and public health in all phases of the project cycle, it has not presented substantive evidence of progress in that area.

Although the IDB does have a Small Projects Program which provides small loans that are administered in some cases by non-governmental groups, it does not appear to be involving non-governmental groups more systematically in project planning and implementation. A Treasury Department's memorandum to the IDB on this issue last year noted that "the Treasury staff's review of bank projects over the last two years suggests that such organizations are not being systematically consulted. Project documents rarely refer to such organizations as sources

of information for the project. Occasional conversations with bank project staff members suggest, as well, a general lack of informal contact with borrowing country conservation and indigenous peoples' organizations."

Similarly, the IDB in a November 19, 1985 response to the Treasury Department did not demonstrate any progress over past years in promoting a greater proportion of smaller scale, environmentally beneficial light capital technologies in its lending programs. In fact, to cite one example, among the multilateral banks it continues to channel a greater proportion of its lending into large scale, capital intensive energy projects, mainly giant hydroelectric schemes, than any other institution. A number of these large scale hydroelectric projects continue to encounter problems ensuing from inadequate incorporation of environmental concerns in their planning and execution.

A final problem concerns the way in which the MDBs, and particularly the IDB, are representing their efforts to improve their environmental performance to the outside world. Prior to the IDB's recent efforts to improve its environmental review procedures it had been issuing statements for years asserting that it incorporated systematically environmental concerns and mitigatory measures at the earliest stage into projects (see, for example, the bank publication "The Inter-American Development Bank and the Environment," May, 1983)--statements which were directly contradicted by numerous witnesses in more than a dozen Congressional hearings over the past two and one half years and put into question by a number of statements of representatives of other international organizations and the U.S. Treasury Department. For example, in June, 1985 the Director General of the United Nations Environment Programme sharply criticized the performance of the MDBs in making their environmental policies a reality. On September 19th, 1985 the Assistant Secretary of the Treasury for International Affairs stated before a Subcommittee of the United States Senate that "over the past two years we have found MDB [environmental] performance, on balance, inadequate....the problem boils down to the need to make the banks aware that environmental aspects of projects have to be systematically addressed."

It would be more to the credit of the IDB and the other banks if they would acknowledge forthrightly that there have been problems in the past and describe in the future more openly the concrete, specific, substantive measures and changes they are undertaking to remedy the situation while acknowledging that much still needs to be done.

Thank you very much Mr. Chairman for your consideration of, and inclusion for the record of these additional comments.

Sincerely,

Bruce M. Rich
Senior Attorney

MINISTRY OF FOREIGN AFFAIRS
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Danish International Development Agency

Mr. Bruce Rich
Environmental Defense Fund
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____ Encl Div D.2. Ref 73.C.27/n/1. Date February 19, 1986

When replying, please write Div. on envelope.

Dear Mr. Rich,

Please refer to your and Mr. Barnes' letter of January 6, 1986 to the chairman of the Board of International Development Cooperation, Mr. Christian Kelm-Hansen, concerning the US legislation on reforms in the Multilateral Development Banks in the field of environmental policies.

I take pleasure in informning you that Denmark agrees that environmental aspects should be taken fully into account in the planning and implementation of development projects. Together with the other Nordic countries we are considering these questions with a view to lending our support to the improvement of procedures in this area in the Development Banks, and in particular the World Bank.

I remain,
yours sincerely,

Bjørn Olsen

Ministerie van Financiën
Generale Thesaurie

DIRECTIE BUITENLANDSE FINANCIELE BETREKKINGEN

Bruce Rich
Environmental Defense Fund
1616 P Street, N.W.
Washington, D.C. 20036
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Uw brief van/kenmerk	Ons kenmerk	Doorkiesnummer	's-Gravenhage
Onderwerp	386-791		February 28, 1986

Thank you for your letter of January 6. The material is being studied by officials in the Ministry that is primarily concerned with environmental matters. I have asked them to draft a brief instruction to our Executive Director on this issue.

As I indicated to you in October projects are being scrutinized by our Executive Office in Washington. In The Hague we will look at a project only in very exceptional cases. Such cases occur when our Executive Office decides that the project involves issues about which new instructions from the Hague are needed. This procedure is made necessary by the fact that manpower to be spent on issues regarding the MDBs is rather limited. Therefore, we do not have the possibility to spend large amounts of time on every aspect of MDB policies and procedures. Rather, we carefully select our Executive Directors, to whom we then delegate the authority to use their discretion in deciding whether or not certain issues should be raised or supported by our chair. For further discussions on environmental implications of Worldbank projects I therefore would like to refer you to our Executive Director, dr F. van Dam.

A copy of this letter will be sent to mr Veening of the IUCN.

With warm regards,

Jos de Vries,
Chief, International Coordination and
Development Corporation Division

Bruxelles, le 2[illegible]-0[illegible]986

MM. Bruce Rich and Jim Barnes
Environmental Defense Fund
1616, P Street, N.W.

WASHINGTON, D.C. 20036

U.S.A.

Dear Sirs :

Thank you for your letter dated January 6, 1986 and its enclosure concerning the US legislation which has recently been approved by the Congress on measures designed to foster the environmental aspects in the multilateral development bank's activities.

First, I have to apologize for my late answer due to same travels abroad since the beginning of the year.

After your visit in Brussels during October 1985 I reported back to the Minister of Finance on the discussions I had the pleasure to have with you on how to take more into account the environmental aspects in the projects financed by external assistance.

Meanwhile, the World Wildlife Fund - Belgium contacted our new Minister of Finance, M. Mark EYSKENS, in order to inform him of the action of the Natural Resources Defense Council in this regard, and in particular of a reform program for the World Bank.

The Minister of Finance responded that he would call the attention of the Belgian representatives in the multilateral development banks to the environmental problems related to the activities of these institutions.

Sincerely yours,

J.P. ARNOLDI,
Conseiller.

BUNDESMINISTERIUM
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Bonn, den 22nd January 1986

Mr. Bruce Rich
Mr. Jim Barnes
Environmental Defense Fund
Threshold, Inc.
1845 Calvert St. NW

Washington, D.C. 20009

Dear Mr. Rich, dear Mr. Barnes,

I thank you - also on behalf of Mr. Daniel - for your letters dated 6th January. We read with interest the enclosed copy of the US-legislation.

In our meeting October last year we tried to explain that in the framework of our cooperation with developing countries environmental aspects of projects and programs are being taken care of for some years already.

The German Executive Director in the World-Bank is well aware of the high importance of those aspects. Therefore we do not find a special operating instruction to be necessary. We take it for granted that he will support in a constructive way every suggestion for improvement that will be presented on the basis of the above-mentioned legislation.

Also on behalf of Mr. Daniel I wish you all the best for your further efforts.

Yours sincerely,

Uwe Henrich
For the Minister

World Bank Holds Funds for Development Project in Brazil

Stephen Schwartzman

Polonoroeste Update

In February 1985, for the first time, the World Bank halted payments on a loan because of environmental problems and threats to the integrity of indigenous populations. The loan was for what has become perhaps the most notorious multilaterally financed development project ever – the Northwest Region Integrated Development Program (Polonoroeste), a $1.6 billion project to pave 1,500 km of road and resettle migrants in the Brazilian Northwest. The cutoff came after several years of intensive, international criticism of the project from indigenous rights and environmental organizations. Congressional hearings dealing with the project and increasing concern over the impacts on indigenous peoples and the environment of multilateral bank-financed projects in general on the part of the Foreign Operations Subcommittees of the Senate and House Appropriations Committees followed an intensive advocacy campaign Environmental Defense Fund Attorney Bruce Rich orchestrated [see *CSQ* 8(4); *CS Newsletter* 5(1); CS *OP* No. 6]. But even after the new Brazilian government came to power in 1985 (Brazil's first civilian regime after 20 years of military rule) and took a series of steps to rectify the worst problems and get the World Bank to renew payments, the situation remains a tragedy.

Uncontrolled Migration

The most persistent, and visible problem – immediately for the indigenous populations, but ultimately for everyone involved – is the massive, uncontrolled migration to the Northwest. The plan the World Bank and the government agreed to in 1980 was designed to rationalize and control this process. Indigenous lands were to be demarcated and protected, forest reserves were to be established and colonists were to be settled on small holdings suitable for sustainable agriculture, with access to credit for tree crops such as coffee and cacao.

With recession, unemployment and consolidation of landholdings for mechanized export agriculture in the rest of Brazil, however, the Northwest became a safety valve for social conflicts in other areas. The area was advertised on TV as an El Dorado for the poor, and the migrants poured in. In 1984 150,000 migrated to the state of Rondonia, while INCRA, the government land agency, only had lots for 5,000 families – about 20,000 people. Very little of the land in the area supports annual cropping. A good deal of the land that does is already held by large private owners. Consequently, settlers clear land that is unsuitable for agriculture, their crops fail and they are forced to move, clear more forest and sell what they had to cattle ranchers or speculators. This process has brought Rondonia the fastest rate of deforestation in Amazonia. If this rate continues, it is estimated that by 1990 the area (about the size of England) will be totally deforested.

For the colonists, the supposed beneficiaries of the project, the situation has produced serious, often brutal, social disruption. The Comissão Pastoral da Terra (the Catholic Church organization that deals with land issues) recently reported cases of the disappearance of families and of the enslavement of migrants.

For the indigenous peoples most recently contacted, uncontrolled migration has drastically reduced their subsistence base, caused epidemics and provoked violent confrontations with colonists who invaded their territory. The military government in effect treated the loan conditions regarding demarcation of indigenous lands with contempt; in many areas not even the minimal step of legal protection of the indigenous lands has been taken. Of the 55 indigenous areas in the region influenced by the Polonoroeste program, only four are fully proteced by law. While most of the areas have some form of legal recognition as indigenous land, 14 groups, whose presence the Brazilian anthropologists who evaluate the indigenous peoples' aspects of the project attest to, do not even have identified areas, the first step toward legal recognition of land rights.

Demarcation

Demarcation of indigenous lands was a major point in halting the loan. After the cutoff, the government demarcated 1.8 million hectares partially as a reserve for the Uru-eu-wau-wau Indians (only officially contacted in 1984) and partially as a national forest. In addition, it gave full legal recognition to two Nambiquara areas (Sarare and Guapore) as well as demarcated a reserve for the Zoro and removed invaders from the Lourdes reserve of the Gaviões. But even with demarcation, as long as migration continues at present rates, invasions will continue to menace the indigenous populations.

Demarcation is a first step, but in Rondonia it was difficult and costly because it was carried out after indigenous areas had already been overrun. In the Uru-eu-wau-wau area, several hundred families of poor colonists were removed and will be indemnified because they settled in the area before it was declared a reserve. These colonists, and others similar to them, opposed the creation of the reserve, and the governor of Rondonia attempted to intervene with the president of Brazil to get the decree of demarcation revoked.

At immense cost to FUNAI (the National Indian Foundation) federal police removed 750 families of squatters from the Lourdes reserve. While police actions and uprooting of colonists may be the only alternative once an area is invaded, in the long run it only heightens tensions between colonists and Indians and makes any process of negotiation between peoples whose rights and needs are equally ignored in favor of speculators, agribusiness and large landowners still more difficult. TV advertising to attract migrants has ceased, but migrants continue to arrive. As squatters are removed from one area, others move into another. The 429 road bordering the Uru-eu-wau-wau reserve is a conduit for new invasions. Last year, at least 20 of the indigenous areas had settlers, loggers or miners on them.

Use of FUNAI Funds Suspect

While the Indians have failed to receive effective protection, and the colonists have failed to receive any benefits, some interests are profiting in Rondonia and Mato Grosso. In the Mequens indigenous area last year, illegal loggers were taking out 50 truckloads of hardwood a day. FUNAI and IBDF (the Brazilian Institute for Forestry Development) seized $150,000-200,000 worth of wood, from only two out of nine loggers in the area. Logging operations were shut down in the Zoro and Rio Branco areas in 1985 and in the Cinta-Larga reserve in 1984, but FUNAI and IBDF lack the resources and clout to control the operations more than sporadically.

State and national electric companies are building or have planned to build hydroelectric dams either within indigenous areas or where they will flood indigenous lands in at least four areas. One dam, which Electronorte (a federally owned company) has proposed, could flood half of the Lourdes reserve. The Cinta-Larga, part of whose land will be flooded by the Juina dam, have negotiated with the Mato Grosso state electric company for concessions such as a road and electricity in their area. But the dam, now under construction, will cause large-scale ecological changes and raise land values in the vicinity, promoting further incursions, and the company has already been remiss in keeping its promises.

FUNAI assistance has left a great deal to be desired in all areas. Vaccination, crucial for recently contacted groups, ceased in 1985, and Polonoroeste program evaluators point out that more and better-trained personnel in health and education are especially needed. A hiring freeze and lack of money have prevented any improvement in these areas. Serious questions concerning FUNAI's use of Polonoroeste program funds have also arisen. Of $26 million that should have been spent on the indigenous peoples' component of the project between 1980-85, $19 million remained unspent, while field personnel constantly noted a lack of resources to carry out basic work. Delays between disbursement of the money by SUDECO (which administers the program) and actually spending the funds, with inflation at 250 percent, account for some of the discrepancy. But sources close to the project say that FUNAI also uses this money to cover operating expenses in other areas, including goods and hotel and transportation bills, for Indian supporters of a series of FUNAI presidents in 1984 and 1985, who were widely criticized for spending large sums to support their candidacies (and setting one indigenous group against another) by maintaining retinues of Indian supporters in Brasilia with FUNAI funds. Evaluators of the program's indigenous peoples' component have been unable to obtain an account from FUNAI on how the Polonoroeste funds have been handled.

Broader Participation Needed

In September, representatives of Cultural Survival, the Environmental Defense Fund, the National Wildlife Federation and the Environmental Policy Institute met with World Bank staff to discuss resumption of the loan. While crediting World Bank for the demarcation of the Uru-eu-wau-wau reserve and other steps, the project's critics noted that conditions in the Northwest remained disastrous and that unless adequate provisions for the needs of indigenous peoples and environmental protection are made before infrastructure projects are started, such situations will be repeated.

A case in point is the Inter-American Development Bank's (IDB) loan to Brazil to pave the 364 highway from Porto Velho in Rondonia to Rio Branco in the neighboring state of Acre, approved in January 1985. This highway is the continuation of the road paved under Polonoroeste. After indigenous rights activists and environmentalists brought the Polonoroeste project to the attention of the US Treasury, the executive director abstained on the IDB loan. Citing high environmental costs, risks to indigenous peoples and the unsustainable development liable to result, he decided the project was a poor investment. The US abstention resulted in a $14.5 million cut from the proposed $73 million in the loan approved for the road. Bank managers also required the government to submit a plan for environmental protection and demarcation of indigenous lands in the area of influence of the project before any funds would be released. While the government has submitted a plan, it has yet to be approved. Meanwhile paving the road has begun without IDB funds.

Since the debacle of Polonoroeste, both the IDB and the World Bank say they have no interest in funding large scale "integrated development" for Acre. But the World Bank has funded a project to map ecological and natural resources and identify indigenous lands and natural areas to be protected as well as provide some funds for demarcations in Acre. Planners in Acre consider the bank's project, known as PLANACRE, the first step to a state-level integrated development plan, including agricultural resettlement. In the case of the IDB project and PLANACRE, indigenous and other local communities have spoken out and are negotiating with planners to have their concerns included in the plans. The Comissão Pro-Indio/Acre designed the indigenous peoples' component of PLANACRE, and the newly formed National Council of Seringueiros (rubber tappers) is arguing for the defense of rubber tapper communities and the forest they depend on in any further development plans. In both cases, local people say they were consulted after plans had been drawn up, and argue for broader participation.□

Stephen Schwartzman is a doctoral candidate in anthropology at the University of Chicago. He is working closely with the Environmental Defense Fund and Cultural Survival on a project to monitor multilateral assistance.

Multilateral Development Assistance Destabilizes West Irian

Sue Roff

In February 1984, a steady stream of Irianese villagers began crossing the border from Indonesian-controlled West Irian into Papua New Guinea in the east. By the end of 1984, an estimated 11,000 Irianese "voted with their feet" and left their ancestral lands located in territory that has been under Indonesian control since the early 1960s, when the Dutch finally relinquished their claims.

Today, two years later, most of these refugees – one percent of West Irian's population – remain in the bleak refugee camps of Blackwater and Vanimo, which the Papua New Guinea (PNG) government reluctantly set up. In the last quarter of 1985, the PNG government began to repatriate some of the refugees despite reports that the most politically articulate were being killed as they arrived in West Irian. At about the same time, the first Irianese refugees arrived by boat at Thursday Island, making it impossible for Australia to continue insisting that the refugees are a bilateral problem concerning only Indonesia and Papua New Guinea, its two northern neighbors. Meanwhile, while being fed and sheltered in the PNG camps at the cost of the United Nations High Commission on Refugees and the PNG government, the refugees' homelands have been resettled by Javanese immigrants under the mammoth Indonesian Transmigration Program funded by a multilateral consortium headed by the World Bank, a United Nations agency. This program has also displaced some of the remaining indigenous inhabitants and further contributed to the destabilization of the Melanesian peoples of West Irian.

Indonesia Manipulates PNG

Since the official incorporation of West Irian into Indonesia after a much-criticized "act of choice" in 1969, Papua New Guinea has been very careful not to be seen to be supporting the Irianese independence movement, the OPM (Organisasi Papua Movement or Free Papua Movement). Especially after seeing what happened in East Timor 10 years ago, when Indonesia was prepared to invade, and did, in order to suppress the independence movement, Fretilin, Papua New Guinea has not been willing to "shake the tiger's tail." Yet after 10 years of its own independence, which was achieved in 1975 when Australia's trusteeship terminated, Papua New Guinea has gained sufficient self-confidence to become a leading defender of Melanesian nationalism in the Pacific. But while it has defended such claims as the Kanaks' for independence of New Caledonia from France, Papua New Guinea has also found it difficult to be as principled about Melanesian rights in its own backyard.

Manipulated by Indonesia, Papua New Guinea remains in a highly uncomfortable dilemma about the West Irianese border crossers, whose exodus is alleged to have started because of Indonesian responses to an OPM flag-raising ceremony in February 1984. The 11,000 refugees, however, are not all OPM sympathisers. Many claim they left their villages and gardens because of disturbances caused by Indonesian military (there are an estimated 3,000 Indonesian troops in West Irian) who were supposed to be flushing out subversive OPM members and sympathisers.

It seems likely that the Indonesians are using the existence of small numbers of OPM activists to legitimize the military dislocation of indigenous inhabitants on the western side of the border. Javanese immigrants resettling on the indigenous inhabitants' lands under the Transmigration Program are protected from an increasingly hostile Irianese population by a growing contingent of Indonesian troops. Firmly entrenched just inside the western side of the border, these troops are poised just as they were in West Timor in the months before the invasion of East Timor a decade ago. First destabilize, then militarize, then cry "destabilization" as a pretext for possible invasion – that was the strategy over two years after the fall of the Caetano Government in East Timor; in Papua New Guinea, a far greater resource-base than East Timor, it may be a two-decade strategy.

PNG Violates Non-refoulement Requirements

While calling for self-determination for the Kanak, the Papua New Guinea government at the same time has been quietly repatriating nearly a thousand of the Irianese refugees. Most of them accepted voluntary repatriation after 20 months in the miserable camps. A handful, who were sent back involuntarily, were reportedly killed by injections upon their return to West Irian.

In October 1985, six men, whose lawyer described them as "among the intellectuals, former military personnel and academics who were actively opposed to Indonesian rule and had fled to PNG because of well-founded fears of persecution or danger" (*Papua New Guinea Times*, 13 October 1985), were forcibly deported by PNG police and Foreign Affairs officials. Their application for asylum in Papua New Guinea had been denied because the judge ruled that there was no basis to prevent deportation because "If there was any basis, it is in relation to what will happen, namely deportation. Such an action has not yet taken place." Even the *Papua New Guinea Times* editorialized, "The court looks a little foolish today ... the issue must be taken to as many international forums as possible."

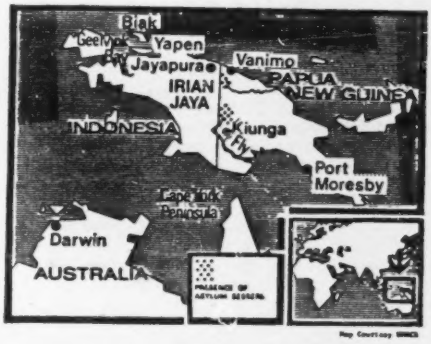
The internationalization of the Irianese refugee problem was stayed in 1984 because Papua New Guinea at first refused to take responsibility for the refugees. Eventually it abided by the international requirements to provide for them and not forcibly repatriate them into obvious danger. But while Papua New Guinea was violating the requirements for *non-refoulement* in late 1985, the first handful of refugees arrived by boat at Thursday Island.

PNG Demands Australia to Accept Refugees

With the Irianese refugees' arrival at Thursday Island, the Australian government could no longer shirk the issue of whether or not refugees from Indonesian-controlled West Irian are legitimate political refugees from oppression and thus entitled to asylum. The Papua New Guinea government took advantage of the situation to resolve (while Prime Minister Somare was away at the Commonwealth Heads of State conference) to internationalize the problem and demand that Australia be among the countries to accept some of the refugees because of its historical responsibility for Papua New Guinea and its regional situation. Australian Foreign Minister Hayden tried to throw the grenade back into the PNG trenches saying, "The resolution of this matter must be a responsibility of the independent, sovereign, Government of PNG" (*The Age*, 8 November 1985).

PNG's Deputy Prime Minister, Father Momis, estimated that among the 11,000 border crossers, 600 to 800 were political refugees. These political refugees are not necessarily members of the OPM, but similar

to the five men who reached Thursday Island — members of other pan-Melanesian groups such as the Melanesian Union of Gag in the west of Irian and Samarai in the east of the PNG mainland. Whatever their affiliations, they are Melanesians who are opposed to Javanese overlordship which has committed severe human rights abuses in the past twenty years.



By the end of 1985 the Australian Committee on Determination of Refugee Status was forced to consider the prospect of legitimate political refugees claiming asylum in Australia from Indonesian oppression. Australian-Indonesian relations had just begun to settle down with Australian Prime Minister Robert Hawke's unprincipled acceptance of the *fait accompli* in East Timor — Indonesia's forced annexation — but Australia's Labour government's policy of appeasement of Indonesian interests does not rest easily with its international obligations. At the same time, Papua New Guinea has received more than $2,500 million in aid (30 percent of its budget) from Australia over the past decade, while also maintaining a $500-million-a-year export market for Australia, with a six-to-one trade bias in Australia's favor. Meanwhile, PNG's first Governor-General, Sir John Guise, argued that "Australia has a duty to awaken the conscience of the world to this problem in order for other nations of the world to assist Papua New Guinea ... it is an historical fact that Australia and the Dutch governments have both initially created this international problem" (*The Age*, 11 November 1985).

Lending Agencies Finance Dislocation

This is true enough but the other culprits in the destabilization of the Melanesian peoples of West Irian are the multilateral lending agencies financing the mammoth transmigration programs that are displacing the indigenous inhabitants from the fragile rain forests of places such as West Irian. Up to $600 million has been made available to Indonesia by a consortium of lenders including the World Bank, the Asian Development Bank, the Islamic Development Bank, the European Economic Commission, the United Nations Development Program (UNDP) and western countries such as the US, France and West Germany. Already 700,000 hectares of land have been "cleared" for transmigration in Irian Jaya; 70,000 immigrants are already there and another 600,000 are scheduled to be sent to West Irian by the end of this decade, with an allocation of 3,000 hectares for every 500 newcomers. At this rate, the Melanesians will become a minority in their own land by 1990.

By funding this dislocation program, United Nations agencies such as the World Bank and UNDP violate Article 8 of the Plan for Action for the Full Implementation of the Declaration of the Granting of Independence to Colonial Countries and Peoples adopted by the United Nations in 1980. Article 8 requires that "Member States shall adopt the necessary measures to discourage or prevent the systematic influx of outside immigrants and settlers into Territories under colonial domination, which disrupts the demographic composition of those Territories and may constitute a major obstacle to the genuine exercise of the right to self-determination and independence by the peoples of those Territories." By funding the program the World Bank also violates its own published principles on "Tribal Peoples and Economic Development" in which it resolves to "not support projects on tribal lands unless the tribal society is in agreement with the objectives of the project as they affect the tribe, and unless it is assured that the borrower has the capability to safeguard tribal populations and their lands against harmful side effects."

Indonesia's Fait Accomplis "Accepted" But Not Approved

Continuing former President Sukarno's tradition of postwar diplomacy, current Indonesia President Suharto is playing a dangerous game. In addition to deliberately destabilizing the Melanesian population by forcing its relocation off land wanted for transmigration programs funded by the international agencies, Indonesia is using the destabilization as an excuse to militarize and settle the border regions with more reliably pro-Indonesian communities. At the same time, Indonesia is keeping Papua New Guinea confused about how to fulfill its obligations to its Melanesian brothers without inviting an Indonesian border incursion or even invasion, while also putting Australia in yet another difficult position in having to choose between principle and appeasement in its own back yard. Indonesia does not conduct itself particularly diplomatically in the United Nations, and is still blustering its way through the forcible annexation of East Timor. The world community may have lacked the political will to come to the aid of East Timor, but Papua New Guinea — a fully sovereign country — may be too difficult to swallow.

Although many countries were greatly dissatisfied with Indonesian's handling of the purported plebiscite that resulted in West Irian's incorporation in 1969, they also demonstrated a certain willingness to accept the situation because there was no clear evidence of an independence movement. For the past 20 years Indonesia has relied on the notion that its faits accomplis will eventually become accepted in international law. It has been sitting out the West Irian situation for 15 years and the East Timor situation for 10 years, and sees no reason to doubt its strategy.

Prospects For Political Autonomy

The climate within the United Nations is changing, however, for two major reasons: one, the assertion of Melanesian nationalism in New Caledonia — where the French rendered the Kanak people a minority in their own land through a deliberate immigration policy in the seventies — has a great deal of sympathy even beyond Pacific members; second, many observers appreciate that in this fortieth year of the United Nations, the first round of decolonization settlements is coming to an end. When the United States finally succeeds in getting the strategic trusteeship over Micronesia terminated, the Trusteeship Council will fold. Seventy nations have become independent under the auspices of the United Nations over its 40 years, and an additional 30, such as West Papua, have been accorded some other status less than independence by the international community.

But the principle that guided so much of this post-Second World War settlement — the notion of successor states to the colonial entities that predated these independent nations — was itself a creature of the dominant power balance of the mid-century. While the majority of member States of the United Nations are probably happy to accept that principle — either despite or because of its anomalies — the peoples who lost out in that shuffle are not necessarily going to continue to accept it. New Caledonia is a clear case in point — and the principles by which

New Caledonia was declared a French territory are exactly the same as those by which West Irian was declared an Indonesian territory.

A review of the documents concerning the "act of free choice" in West Papua reveals that the United Nations was extremely tentative in its acquiescence to the Indonesian annexation. Professor Roger Clark of Rutgers Law School pointed out in the *Yale Journal of World Public Order* in 1980,

> The United Nations acquiesced in a consultation that did not recognize the principle of one person, one vote. Moreover, the consultation was effectively conducted by Indonesia which "exercised at all times a tight political control over the population".... While the General Assembly did not approve of the result of the "act of free choice," it passed a resolution taking note of this act.... This resolution passed by a vote of 84-0, with 30 abstentions.

The salient issue that will determine whether or not the United Nations decides to reconsider the question of West Irian will be the will of the people. In decolonization law there is a "threshold" principle that requires that enough of the people must indicate their will to change their situation in order to compel international agencies to take notice. The Kanak people demonstrated that threshold of will in 1984; the East Timorese people have been demonstrating it for 10 years, which is why the United Nations has not been able to bury the issue the way they did the Irian fait accompli. It remains to be seen whether the Irianese people will continue to "vote with their feet" in sufficiently large numbers to alert an already alarmed international community to their dissatisfactions with their neocolonial administrators.

Signs of World Bank sensitivity to the problem in West Irian are increasing. US Treasury official David Mulford told a Senate oversight panel on September 18, 1985 that he saw some progress in examining environmental effects of proposed development projects such as the Indonesian transmigration scheme before loans are authorized, "but it is not enough." In an editorial on "The Rape of the Rain Forests" on November 27, 1985, the *New York Times* asked, "Why do tropical countries like Brazil, Colombia and Indonesia allow their rain forests to become moonscapes? Population growth and land hunger are the usual explanation officials give. But there's plenty of land; the problem, as Catherine Caulfield recently noted in *The New Yorker*, is that 4.5 percent of Brazil's landowners own 81 percent of the farmland; in El Salvador, 2,000 families own 40 percent. Colonizing the forest deflects the pressure for land reform."

Scandinavian members of the World Bank in particular have been disturbed by the practices of this specialized agency of the United Nations which are in direct violation of United Nations resolutions. Indonesia has been very astute at playing the international agencies for every dollar it can extract from them. Given the timidity of both Papua New Guinea and Australia, it is up to the international community to defend the rights of indigenous peoples against deliberate destabilization and relocation campaigns paid for, even planned for, with multilateral "development" assistance. □

Sue Roff, an Australian-trained political scientist, is a frequent petitioner in the Trusteeship Council and Committee on Decolonization of the United Nations as representative of Minority Rights Group, an international human rights organization.

Indonesia to 'relocate' 700,000 from Java to Irian

From correspondents in Jayapura and Port Moresby

INDONESIA plans to move nearly 700,000 people from the overcrowded island of Java to the remote province of Irian Jaya over the next five years, a move which would also help solve Indonesia's serious political problem – the tide of nationalism among the Irian Jayans.

The head of the Provincial Transmigration Office in Jayapura, capital of the province, Mr Eko Sarwoko, told Reuters the voluntary migration of 689,000 Javanese to Irian Jaya, would help economic development, promote Indonesia's unity and benefit security.

Threatened

It will boost the population of the vast under-developed region to nearly two million under the 1984-1989 five-year plan.

Irian Jaya's Governor, Mr Isaac Hindom, denied the migrants from Java would dominate the local Irianese, mostly Melanesians of similar ethnic origins to the people across the border in Papua New Guinea.

He said he disagreed with those who thought the migration would wipe out Irianese culture or Islamicise the province, whose people are mainly Christian in a country which is 90 per cent Moslem.

He said the region was stronger as part of Indonesia than it would be as a separate sovereign state.

Pressure

Many families of government officers at the frontier have said they are nervous about increased rebel activity and reported clashes with Indonesian troops.

Mr Somare's comments come as two 30-man police riot squads prepared to visit remote border posts in a security check.

"Obviously Irian Jayans living in Papua New Guinea sympathise with their comrades. This we can understand and tolerate," Mr Somare said.

"What we cannot tolerate is when this sympathy extends to violent threats, blackmail and kidnapping."

But, in an indication of the political motives behind the move, he said the Irianese would only occupy 25 per cent of the houses and fields in new settlements being built to "promote integration".

The migration plan is part of a national program to move over 3.7 million people from the central islands of Java and Bali to Sumatra and outlying parts of Indonesia by 1989.

About 100 million of Indonesia's 160 million people live in Java. Irian Jaya is four times bigger but is thinly populated.

"I am proud because we can offer Java a place where they (the migrants) can live and develop," Governor Hindom said in an interview. "So Java needs us as we need Java ... and we can work together to build the country."

Transmigration to Irian Jaya began in 1964 after Indonesia took the province over from the Dutch, but Governor Sarwoko said only 68,000 outsiders had moved in under the program so far.

Meanwhile in Port Moresby, the Papua New Guinean leader, Mr Somare, yesterday threatened to expel Irian Jayans in PNG who lend active support to Free West Papua (OPM) rebels. He said he had some sympathy for Melanesians in Irian Jaya but he would not allow PNG to be used as a base for violence.

An OPM spokesman said publicly in Port Moresby last week a Swiss pilot kidnapped in Irian Jaya and later released unharmed would be executed if a ransom were not paid.

A rebel group led by the self-styled president of the OPM, James Nyaro, crossed into PNG last weekend to hand over the Swiss pilot they had held hostage.

Mr Somare said Melanesians in Irian Jaya were faced with a difficult situation that also presented problems for Papua New Guinea.

Meanwhile Colonel Sebastian Ismaeil, the military attache at the Indonesian Embassy in Port Moresby has left for Jakarta after pressure from PNG over the alleged incursion of its territory by two Indonesian jet planes.

How the Indonesian Government is moving 7.5 million people from urban areas

Indonesia is a huge country, but most of its people live on two of its 13,000 islands. The government plans to change this by moving 7.5 million to remote areas — a plan that has devastating human and environmental consequences. CATHERINE CAULFIELD reports on the great experiment.

FORGET the TransAmazonian Highway. Forget the West Bank of the Jordan. These and all other colonisation schemes in the world pale beside what is happening now in Indonesia.

The country's current five-year plan calls for 2.5 million people to move from the most crowded islands to the so-called outer islands between 1979 and 1984. It was a daunting goal but the Government looks like achieving it.

Encouraged by that success, the authorities want to move twice as many in the next five years.

The movement, called transmigration, has been going on in Indonesia since early this century when the Dutch colonial government imported workers from other islands for the Sumatran rubber plantations.

Since independence however, the pace has increased dramatically. Between 1905 and 1950 the government moved fewer than 220,000 people to the outer islands. Between 1950 and 1983 more than 10 times that number were moved. Probably an equal number moved independently.

And because the aim is to move people from the crowded settled areas to the frontiers, transmigration has had an enormous impact on the country's rain forests. Parts of Sumatra and Sulawesi, formerly heavily forested and virtually uninhabited, are now as crowded and devoid of trees as parts of Java are.

In the 1950's President Sukarno called migration to those islands "a matter of life and death for the Indonesian nation".

The problem was, and still is, overcrowding on the more fertile of the 13,000 islands in the Indonesian archipelago, particularly Java and Bali. The tiny island of Bali is one of the most densely populated places in the world. It has fertile soils, laid down over thousands of years by erupting volcanoes, an ancient and efficient system of rice terraces, and a strong culture. All these things have enabled the island to support a large population with some of the most intensive agriculture in the world.

But as Bali's population grew, the subdivision of each family's land became smaller and smaller. Today the average holding of each farming family on Bali is only 0.1ha. Many younger sons have no hope of ever owning land. Since 1960, 120,000 Balinese have left what they call Paradise Island hoping to find land and a better life elsewhere.

The problem is even worse on Java where in irrigated areas, as many as 2000 people crowd into every square kilometre. Four-fifths of Java's 92 million people live in the countryside; of these, 40 per cent have no land at all and another 35 per cent haven't enough land to grow crops they need to feed their families.

One cause of the overcrowding is unfair land distribution. One third of the land in Java is in the hands of one per cent of the landowners.

The outer islands of Indonesia, notably Sumatra, Kalimantan (the Indonesian section of Borneo), Sulawesi, and Irian Jaya (the western half of the island of New Guinea) are relatively empty, but not so hospitable.

Their soil is weathered and relatively infertile, not suitable for intensive agriculture or dense populations. Until recently, these islands were inhabited mainly by small isolated groups of people who hunt, fish and practise shifting cultivation in the forest.

Kalimantan has fewer than 10 people per square kilometre; Irian Jaya fewer than three.

However, thanks to these long undisturbed, forested islands, Indonesia has one-tenth of the world's tropical rain forests, more than any other country save Brazil.

To the world at large the outer islands of Indonesia have for many centuries been unknown wild places. But by the beginning of the 20th century, as the inner islands grew increasingly crowded, those empty and unknown lands began to seem a wasted resource.

President Sukarno, like the Dutch before him, saw transmigration as the solution.

Indonesia, he said, did not need birth control. Instead Java's population was to be reduced from 54 million to 31 million between 1950 and 1985 by moving people to the outer islands. Plans for the program changed frequently as the government was unable to meet the ambitious goals it had set itself.

Although there is some good agricultural land in the outer islands, most of it is already spoken for by indigenous people, spontaneous migrants and owners of large plantations.

Most of the settlements so far have been in forested areas. Although machetes and chain saws do less damage to the soil than heavy equipment, the rush to meet the target of half a million families in five years means that most land is cleared by big machines.

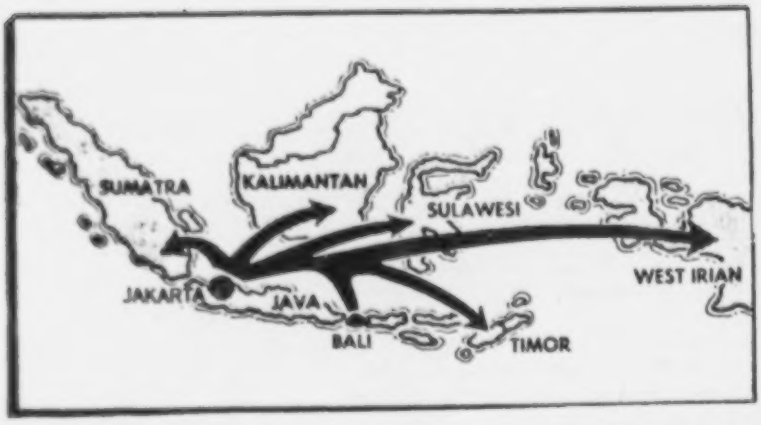
Generally the trees are knocked down by bulldozers and then burnt — often before the commercially valuable species have been taken out. Heavy clearing equipment compacts the soil so that it loses much of its capacity of retaining water.

Hard rains then erode the land, silt up nearby rivers and dams and lead to flash flooding as the waters sheet along the surface to the ground.

In 1979 President Suharto banned the clearing of primary forests for transmigration. The plan was to settle families on Indonesia's vast and expanding areas of alang alang grassland.

Alang alang is a coase grass that invades deforested land that has been badly burned.

Officials at the World Bank believe one weakness of transmigration is the way the government sites for new settlements are selected.



Government officers have often overrated the quality of available land. For this reason the World Bank has earmarked $100 million of the $350 million it has lent to the program for working out better ways to select new sites.

One official warns, however, that better planning may bring "a big conflict over site availability".

"Already there is a tension in the system because the consultants are recommending exclusion of ore sites," he said.

"I believe the Government will run out of sites before they meet the resettlement goals but the government doesn't share that view.

"One problem is that appearances are deceptive. It looks as if there is a lot of land in east Kalimantan and Irian Jaya, but it's impractical to settle there."

Transmigration officials agree there are problems. With the flatlands fully occupied in many parts of the country, more and more new settlements are on marginal land.

There, people tend to plant tree crops which, because they cover the soil permanently, can be grown on slopes as steep as 15 per cent. Annual crops are restricted to slopes of 8 per cent or less, because of the dangers of erosion.

The procedure the government lays down for setting up transmigrant communities calls for five years' planning and preparation before anyone moves to the new site, and another three years of advice and assistance before the community is on its own.

"If we had enough time to go with this system, we could eliminate many of the dangers," said an Indonesian official.

"Unfortunately, sometimes we have to finish in three years, or sometimes two. Sometimes we plan and act simultaneously: what we call plan-as-you-proceed."

An official from a foreign funding agency described plan-as-you-proceed in this way: "As soon as anyone finds any land which is vaguely empty you move people in."

Two-thirds of all government-sponsored transmigrants are landless peasants, the poorest of the countryside. Another 10 per cent are homeless city dwellers. This means most are not experienced farmers. The most successful are often "spontaneous" transmigrants, because they are motivated enough to move on their own initiative, and can choose where to live — usually near friends who help them through the difficult early years.

A survey in 1976 showed that seven years after settling, most spontaneous migrants have a higher standard of living than "official" transmigrants. Recognising this, the government is now trying to encourage spontaneous migration.

The least successful migrants — and the least popular with other settlers and neighbors — are the urban poor.

"It has been a bad experience sending people recruited from the Jakarta slums," one official said. "They won't cultivate the land. They go back to town. That's our biggest failure. That's why many regions reject transmigrants from Jakarta."

Until 1973, people from Jakarta were often almost press-ganged into moving. Now volunteers outnumber available places on the program, the government claims.

An American working as a consultant on the project said that as officials were constrained to meet the new targets, they became less selective about proposed sites and who they move.

He said: "It's still a voluntary program, but they are increasing pressure on people to sign up. The government is increasing the hype, but now people know more about the program than they used to, so they're less easily fooled."

Few migrants go back to their villages, but stories about transmigration trickle back, not all of them encouraging.

Each family is promised a house and from 2.5 to 4ha, about half of which should be cleared before they arrive. The logistic problems of building whole towns in empty and isolated areas plague the program, however.

Sometimes the department responsible for moving the settlers gets them there before other departments have finished clearing the land, building roads and houses, or ensuring a water supply. This is common enough now for the government to offer the people a small fee (less than $10) to build log cabins.

Transmigrants all receive food rations for the first year or two. The standard issue is 17.5kg of rice a month for males, 10kg for females and 7.5kg each for three children.

Each family also receives a monthly supply of salt, salted fish, cooking oil, kerosene, sugar, and washing soap.

In theory, a husband and wife can bring only three children with them, but studies have found one-third of the transmigrant families number six or more.

Extra children do not entitle a family to extra food. Settlers still need cash, however. This they can earn only by selling surplus crops, providing they can transport them to a market.

In 1977-78, the government built three medical clinics, seven elementary schools, and five houses of worship on transmigration sites. Perhaps luckily, in the same year, officials were able to move fewer than 60 per cent of the 105,000 planned.

Rachmat Wiradisuria, assistant Minister for the Environment, said: "Not being able to meet our target figures for transmigration was a blessing in disguise. It gave us a chance to learn from our mistakes."

With Java's population increasing by about 2 million a year, government officials no longer claim transmigration will relieve population

pressure.

What then is the point of this expensive and ecologically dangerous scheme? The new official rationale is that transmigration helps Indonesia grow food and promotes regional development.

An economist who studied the program for the World Bank found production was abysmally low except in the 10 per cent of settlements which have tree crops or irrigated rice fields.

"None of the other settlements had returns anything like what the World Bank said would be the minimum feasible in its economic justification for the program," the economist said. "There is a small net increase in food production, but it doesn't justify the investment. It would make much more sense to invest the money properly and buy in that small amount of rice."

The real motive for the program, many believe, is "Javanisation". The indigenous population of the many islands under Indonesian rule (notably Kalimantan, Irian Jaya, and Timor) have rebellious tendencies.

They have their own cultures, languages, and religions, and do not want to be part of Indonesia.

Many islanders deprecate transmigration as a move to swamp them with people who share an ethnic and religious identity with Indonesia's military rulers.

The government now has a policy of allocating 10 per cent of each settlement to local people, but that only moves the line between natives and settlers, it does not eliminate it.

In the end, what keeps transmigration going is that plenty of Indonesians want land so badly they are willing to endure the hardships of pioneering to get it.

Only a few worried observers ask how many are pinning their hopes and dreams on land they, themselves, are helping to destroy.

New Scientist

Pathetic attitude to Indonesia

Comment
KENNETH DAVIDSON

FEAR and guilt are the two dominant emotions that underly Australian attitudes to Indonesia.

We feel guilty about our wealth relative to their poverty and fear that their 180 million people can dominate Australia's 16 million people.

This attitude towards Indonesia is rather pathetic and so it is natural we don't want to talk about it.

Instead we have frenzied debates about related, but essentially peripheral, issues to our core fears — like the color of our immigration program and the reporting role of the ABC in the region.

Whether Mr Whitehead and Mr Myer are up to their jobs is a fascinating topic of gossip, but it is really Mickey Mouse in comparison with the issue of whether Australia is going to provide any support to PNG against Indonesia in the developing problems over the Irian Jaya border.

The Department of Foreign Affairs and its Minister are virtually transfixed by Indonesia's hard liners such as the chief of the military, General Benny Murdani.

The present policy accommodation over East Timor and vacillation about making any sort of commitment to the legitimate security needs of PNG is a policy of appeasement. Its latest expression was in the Foreign Affairs request to the ABC management not to run the interview with the Free Papua Movement leader, Mr James Nyaro.

While Foreign Affairs attempts to shut the nation's eyes to the border problems, the situation is likely to get worse, not better.

The problem lies within Irian Jaya.

In the past five years, about 8000 families have been shifted from Java to Irian Jaya, on to three, four or five hectare plots in order to subsist together with cash crops such as coffee or rubber.

As well, the Indonesians have begun building a road along the border which has already accidentally strayed into PNG.

In the next five years, the Indonesians plan to move another 80,000 families, so that by 1990 there should be about half a million of Javanese origin in Irian Jaya on top of an estimated one million Melanesians.

I don't think much imagination is needed to see what the effect of this will be on the indigenous population, or how the indigenous population will react.

But there are two further obscene elements to this program which migh not be so obvious.

The first is the cost, which is estimated about $12,000 a family.

The total cost of the transmigration program to various Indonesian islands is expected to be $10,000 million over the five-year-plan, or $2000 million a year.

And who do you think is helping to pay for these Javanese version of Nazi Germany's lebensraum?

You're right: the second obscenity is that Australian taxpayers are contributing indirectly, through their membership of the World Bank, which is providing a major part of the funding.

There is about $1500 million a year in aid channelled to Indonesia each year through the Inter-Governmental Group on Indonesia (IGGI) of which the World Bank contributes half. Japan and the US are the major country donors while Australia contributes about $40 million a year.

There is no way the transmigration can be seen as economic. The $12,000 cost of transmigration for each family has to be set against per capita incomes in Indonesia of about $700 a year.

If the objective is to maximise export income from the outer islands, it would be more economic to develop cash crops with the idigenous population.

If the objective of transmigration is the welfare of the Javanese then $2000 million a year could be used to accelerate the already successful population control program, and still leave a lot of funds for industrial and agricultural development.

Thus, the first move by Australia in this border dispute should be to work through IGGI for the abandonment of the transmigration program.

The transmigration movement can only be explained in terms of Central Javanese imperialism.

We may have no success withi IGGI because the US dominate the World Bank and is only co cerned with maintaining an ant communist Government (bot President Ford and Dr Kissinge were in Jakarta only hours befor the Indonesian invasion of East T mor and didn't want to know abou it).

And the next most influentia member, Japan is concerned onl that its aid flows back to Japan i the form of orders for heav equipment to build the grandios hydro-electricity plants and othe prestigious works that provide pe manent memorials to the munif cence of the World Bank.

So we may have to apply dipl matic pressure through the sma countries in the region who woul be sympathetic to Melanesian a pirations in Irian Jaya.

If financial and diplomatic pre sure fails what then?

The bottom line is force. Whil this opens up the unspeakabl abyss in terms of the debate, it ha to be looked at, and policies deci ed on, even before transmigratio is opposed within IGGI.

Australia will be noticed only it is determined. If there is no hop of some reasonable consensu about the bottom line, the best o tion is present policy supplemen ed by accelerated assistance t build the border road so we ca help drive the potential Melan sian refugees back into Irian Jay

The alternative to an acceler tion of the present obsequious po cy of building credits in Jakarta for some intelligent thought abo the relative strength of the tw countries.

The relevant fact is that Austr lia is two to three times richer tha Indonesia, and our military is bi ger and better than the releva modern segment of the Indonesia military.

It might take about 40,000 figh ing troops and another 200,0 back-up soldiers to police the PN border, but this is Maginot Lin thinking.

In East Timor, 14,000 Indon sian troops are occupied full-tim chasing 1000 to 1500 Fretilin gue lla forces, of whom no more tha 200 would be active at any on time because of a shortage of gu and the necessity to grow food

If the Free Papua Moveme were given 200 rifles and a fe Bren guns of World War II vintag they could tie down a dispropo tionate number of troops. Possib Indonesia could afford that, b the cost in terms of modern mat rial would impose considerab strains on an economy whose m jor source of wealth, oil, is dimi ishing both in value and qualit

Irrespective of the military ou come, such a guerilla force wou stop the transmigration progra dead.

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Transmigration

THEY ARE HUNGRY, THEY ARE ANGRY

(TEMPO, July 13, 1985 - MN)

Thousands of transmigrants storm the neighboring village, 26 homes turn into ashes. Why have they gone berserk?

Like a flame the anger spread over the wooden homes of the transmigrants. Thousands of transmigrants from the "E" unit of the Wonomukti, Moutong Subdistrict, Donggala settlement flocked together and then stormed nearby Bolano village. Houses were levelled to the ground and smoke rose from the ruins of 26 houses, and fights were unavoidable. This happened at the end of last month.

And the small village in Central Sulawesi, near Tanjung Santigi and Teluk Tomini, became quiet. Some residents out of 300 family heads left their village, while security troops kept order.

The riots would not have occurred if Soenarto, 50, was not killed. When he did not return home, his fellow transmigrants were suspicious, especially when there was a report that Narto was killed by a gang. That very day they called in groups on the Bolano village chief, expressing their suspicion. "The transmigrants even threatened to burn down the people's homes," said a source.

The burning did occur. It appeared as if the village was attacked by robbers. The houses of the village government officers and of the population were in ruins. Smoke was seen rising. And Narto's dead body was found buried in a hole of half a meter deep.

Having dug up the dead body, the transmigrants' temper

rose again. A policeman who appeared on the scene was caught, tied and used as a hostage. Only after the Muspida from the Kabupaten of Donggala and Central Sulawesi and security officers arrived from Palu -- after having travelled more than 300 kms -- was the situation under control. Four men who killed Narto and the two others who joined in burying the dead were arrested.

Coconuts were the cause of all this. On the fateful day Narto climbed a coconut tree to pick some fruits owned by a local inhabitant. Four men who saw him attacked when he climbed down. It often happened,according to the local population, that the transmigrants stole coconuts. Also they often demanded timber or corrugated iron from the local people. But nothing unpleasant happened.

But the cropped up sentiments and social envy which Transmigration Minister Martono often described as the cause of conflict pushed the local people to act. But in the Wonomukti case, it was the transmigrants who were aggressive, which rarely occurred. Minister Martono himself was not yet sure about the cause of the conflict. "I am gathering information and I've sent a team to investigate the event at Wonomukti."

Some matters which often cause a conflict between the natives and the newcomers concern lack of understanding of local customs. Also envy about the land problem.

But the land in Taopa Lambunu, as the area is popularly called, is not worth fighting about. The 11,000-ha area opened in 1981 depends on rain water. Only sweet potatoes and corn grow there. And they are not much worth when sold. This situation pushes the transmigrants to earn a living as construction coolies far from the location. For example, Achmad who works as a daily worker at the Parigi-Poso irrigation project.

"They've asked for irrigation," said Central Sulawesi Gevernor Galib Lasahido, some time ago. A plan was made by the Public Works representative office, and the cost was estimated at Rp.6 billion. "Since the fund from the State Budget was limited, we've sought to get foreign aid," said Soenardi Hadisupadmo, the head of the provincial public works office, to Andie H. Makasau from TEMPO.

Coordination was said to be another problem. This year coordination was weak indeed. No meeting was ever held between the transmigrants and those in charge of them. K. Chairuddin. the head of the local transmigration office, told reporters, "We've just brought the people here, and then other offices are invited to join."

In any case, a clash has occurred. Some of the 17,000 transmigrants -- now in the fourth year in the area when government supplies were stopped while they were not yet settled -- are really threatened by a food shortage. "We are hungry sir," said a transmigrant who was considered exemplary, crying and catching the legs of the commander of the subprovince military command Colonel ZB. Palaguna.

A woman said, "I swear, sir, we eat only sago and dried cassava and nothing else."

In such a situation, anything no matter how insignificant was felt to be painful. Let alone the murder of a friend. It was not surprising that the transmigrants from Jakarta and West Java went berserk.

But Minister Martono did not quite agree that the transmigrants were short of means before their lands became productive. "Well, that could be made the reason. But they also know and they were informed that they were given supplies for only a year. So they should have prepared themselves long ago."

Now that there were victims, things seem to be started all over again. "They've agreed to make peace," said Governor H. Galib Lasahido. There would be a friendly get-together where they would forgive one another. But nobody knows what will happen if the source of the problem, namely irrigation for the land, is not solved.

* * *

Editorial:

DISCUSSION ON CORRUPTION
(KOMPAS, July 13, 1985 - MN)

Perhaps people will shrug their shoulders and comment, "Oh, Lord, they're just talking about corruption, and then only because of a newly published book, "Bunga Rampai Korupsi."

Against corruption we may not be indifferent. It is no just unfair, or say, in conflict with the five principles of the concept of power, but indifference will rather enhance corruption.

The Indonesian economy has been opened for 15 years. The management and the opening of the economy demand the cooperation of the bureaucracy and business. The volume between the bureaucracy and business is as big as the expansion of the economy.

The opening of the economy has brought about prosperity, if not for all the people, then for those who are directly involved. The open economy and growing prosperity have brought about changes in orientation and values. There is, for example, consumerism.

TRANSMIGRATION IN IRIAN JAYA
By Mubyarto

(KOMPAS, March 5, 1985 - MN)

In October 1984 combined team of the Yogyakarta P3PK-UGM and the LPP (Plantation Training Institute) at the suggestion of the Junior Minister for Cash Crop Production visited general and PIR-BUN transmigration sites at Sintang, West Kalimantan.

Before the team returned to Yogyakarta, the Transmigration Minister invited it to make a similar study tour of transmigration sites in Irian Jaya.

Predictably, the team's observation got much attention, not just from the domestic, but also from the foreign, press. Unlike transmigration in West Kalimantan or Jambi, for instance, transmigration to Irian Jaya directly involves Indonesia's foreign policy.

That was one of the considerations of the team to present a brief report at the routine monthly seminar of the P3PK-UGM on Feb. 7, 1985. Materials for the seminar were derived from a small part of the 100-page report sent to the Transmigration Minister a week before the seminar.

The media must be considered to have contributed greatly to the dissemination of the result of the team's study, but the team does not wish to see the press reports create a controversy between the team and the Transmigration Department, and especially not when they lead to a debate on target.

The team's report does not contain a proposal for "changing the target" set for Pelita IV. The six-day field trip did not make the suggestion of an "alternative target" possible.

The team's suggestion is that the problems faced are many and complex, and in order to reach the aim of transmigration for the resettlers, the local inhabitants and Irian Jaya as a whole, the "quality" of the program must truly be raised.

The special character of transmigration is immediately evident in the possibility of the local people "lagging behind" the newcomers. An excerpt from the team's report is as follows: "Though there are not yet convincing data, there is a very great increase in the economic activity in Irian Jaya, especially with the transmigration program. True, there is trend that a greater role is played by the newcomers who appear to be quicker in using economic opportunities. Yet as building, river and sea transportation workers, the local people appear to stand out. If there are more evidences of the local people 'being behind' in the 'competition' for jobs, there is need for a special policy to deal with it by considering social-cultural and non-economic values so that the 'participation'of the native sons is truly guaranteed."

The team suggests the combination of the national program of transmigration with the regional (village community) development program. The human element figures greatly in development programs in Irian Jaya.

We have once concluded that at this time transmigration is not just a program, but a national phenomenon or reality. It is no longer questioned whether it is necessary or not but what the best and most efficient way is to implement it. This is the most relevant way to look at the transmigration problem. It is obviously not just the task of the Transmigration Department alone but of almost all government departments.

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PROBLEM OF TRANSMIGRATION IN IRIAN JAYA
(KOMPAS, Feb. 28, 1985 - MN)

Though the government considers the sending of transmigrants to Irian Jaya important, it must be realized that those sent there are human beings. So it should not be oriented purely to targets, but there should rather be a more humanitarian approach, based on psychological, sociological and anthropological studies.

This is the core of the statements of DPR Commission IV Chairman Warno Hardjo (F-KP), Commission IV Deputy Chairman Imam Churmen (F-PP) and Isa'ac Saujay (F-KP) to this newspaper. The three DPR members were met on separate occasions and asked to comment on the statement of Transmigration Minister Martono issued on Monday after the Minister was received by President Soeharto at Bina Graha.

Isa'ac Saujay, who originates from Irian Jaya, regarded Minister Martono's statement that implementation of the transmigration program in Irian Jaya would be carried out cautiously and not recklessly considering the existence of rather big cultural differences as not quite clear. "I've tried to understand it, I can't grasp the meaning," he said.

Unlike the three DPR members, Roch Basoeki Mangoenkoeroyo, the director of the LKPI (Indonesian Transmigration Pioneering Institute), supported the Transmigration Minister's view that the number of transmigrants to Irian Jaya was not to be reduced.

In the opinion of Warno Hardjo, the government has to prepare itself better in undertaking the transmigration program with respect to both natural resources and human resources.

The problem of human resources concern not just the cultural differences between the newcomers and the local inhabitants; many other problems have to be considered. For example, there should be a psychological, sociological and anthropological approach. Only in this way can there be a dialogic communication.

Isa'ac Saujay shared this view. He said that as contained in the GBHN, the transmigration program has to consider national defense-security interests and the integration of the transmigrants with the local communities. "What's prosperity for if the newcomers and the local people cannot meet and understand that they are fellow citizens," he said.

But he added, as Imam Churmen also pointed out, that the technical problems in the preparation of the resettlement sites had to be handled thoroughly. For example, problems involving transportation, the preparation of lands, dwelling sites, water supply.

Interdepartmental

With the preparation of the natural and human resources, according to Imam Churmen, the local inhabitants are expected to be fully prepared physically and mentally to accept the resettlers; so also the other way around.

Churmen said that before a party of transmigrants arrive at the new dwelling site, an exploratory trip had better be made by one of them in advance. The group should not be disappointed seeing the site that is not as promised. "This will have a big psychological effect," he said.

What Churmen said was experienced by a group of transmigrants at Nimbokrang I, who were shocked to find the situation at the location chaotic, far different from what they heard when they were to leave for the place.

Nonetheless, it was admitted that objectively not everything is a failure. There are also many success stories. And if the successes are to be maintained, there has to be good interdepartmental coordination. The present system is already good; the transmigration site can be occupied only if there is a clearance from the Governor or the local Bupati. In the opinion of Roch Basuki, Cenderawasih University, too, has to be involved, of course, in cooperation with the Bogor Institute of Agriculture (IPB) and Gadjah Mada University (UGM).

Javanization

The three DPR members reject the opinion that transmigration to Irian Jaya is a Javanization scheme. For transmigration is the one and only means to develop Irian Jaya so as not to lag behind. The question is how to convince the native population that transmigration precisely seeks to speed up the raising of their living conditions. And the negative voices from Papua New Guinea should be faced by the Indonesian communities themselves, especially the Irian Jaya people. Both the traditional, religious and community leaders and the government should jointly oppose the Javanization issue launched by the PNG.

"Though it is actually a domestic problem, we have to show the true reality so that things cannot be exploited by the GPK-OPM (Troublemakers - Free Papua Organization)," said Warno Hardjo.

TRANSMIGRATION TO IRIAN JAYA NEED NOT BE INTENSIFIED
(KOMPAS, February 27, 1985 - MN)

Resettlement in Irian Jaya should not be stepped up, and in fact the program for Pelita IV had better be rescheduled.

This was stated by Dr. Gunawan Sumodiningrat, a staffer on the Gajah Mada University Center for Rural and Regional Studies (P3PK UGM).

Transmigration Minister Martono said the day before yesterday that resettlers for Irian Jaya would be increased rather than reduced. However, the implementation of the program would not be rash but more cautious in view of the rather big cultural differences between the newcomers and the native inhabitants.

Gunawan said in Yogyakarta yesterday that "without touching on the possibility of a social conflict, as Minister Martono said, from the economic aspect alone there are plenty of obstacles that have to be cleared first."

At the invitation of Minister Martono a seven-man P3PK team under Prof. Mubyarto observed the transmigration program in Irian Jaya in mid-January. Gunawan Sumodiningrat was a member of the team.

Though Minister Martono said that in Pelita IV the government set a target of 136,000 families for resettlment in Irian Jaya, official figures show that during Pelita IV 137,800 famllies or 691,000 persons are to be rosettled in the territory. This is quite a drastic increase considering that the total number of resettlers up to the end of Pelita III was 14,196 families or 59,704 persons.

"This represents an almost tenfold increase," said Gunawan, who considered the plan too optimistic. He wondered whether such a program could be accomplished. Not just are there many and complicated obstacles in the field, but recent experience has shown that many of the targets were not attained at all. For example, for the end of 1984 only 200 persons out of a target 500 persons were resettled.

Gunawan said transmigration is not just a matter of moving people from Java to new places. Transmigration must be viewed as an endeavor to raise the living standards of the resettlers as well as the local inhabitants.

Irian Jaya is vast, with a natural environment which differs from that in Java and with a relatively lower development level. The study of the minimum preconditions of the social-economic aspects must get special attention. They cover preparations for dwelling areas, lands for cultivation, and factors to smooth up economic activity, like the marketing of goods needed by the resettlers as well as the goods they have produced.

According to Gunawan, the target sites are partly in areas subject to floods. The salinization process which reaches as far as 80 kms from the coast-line encumbers the search for drinking water and preparation of land for tilling. Also there is need for special building materials, for roads and special means of communications, all of which add to the cost of preparing the transmigration sites.

Editorial:

TRANSMIGRATION IN IRIAN JAYA
(MERDEKA, Feb. 27, 1985 - FM)

Transmigration has become quite a serious problem in this country, especially in relation to the national development. The more development progresses, the bigger its challenges. The problem concerns not only the capital resources but also human resources which are one of the factors which need to be fundamentally solved.

We underscore, in this case, the government's transmigration policy. Indeed, it has a noble and beautiful aim. Transmigration is intended to distribute development in various fields. The burdens of the overpopulated regions where poverty generally reigns due to the thinly distributed wealth, including shortages of lands for tillage, should be lessened. For this purpose there is of course the need for a well-coordinated and well-organized resettlement program in order to lessen the economic pressure in the overpopulated areas, and to open up new resettlement areas in the underpopulated regions where virgin lands abound.

Unfortunately, the transmigration policy in independent Indonesia is, behind its noble aim, not free from weaknesses and even faults. While in the colonial days transmigration was identified with a colonization and the "contract labor" system in the plantations belonging to the colonial masters in, for example, Deli, East Sumatera, and even Lampung, the transmigration during the independence days is oriented to another thing. It is meant to spread productive manpower to develop the country. A beautiful slogan indeed.

However, it has also encountered bitter experiences. In the early days of the 1960's the transmigrants from Java who were placed in the Seram Island, Central Maluku, were killed by the local people. The reason was simple enough. There was no harmonious relationship between the resettlers and the local inhabitants. Under such circumstances, suspicion comes up very easily, leading, subsequently, to horrible action. The cause is that the transmigration program has not been basically and well prepared. This should serve as a lesson in how the trasmigrants become an object of hatred among the local people of a region where the former are sent.

Just like the family planning program, the transmigration program is a national priority. Indonesia is loudly lauded for having been able to move 500,000 families in one Pelita to make a success of its transmigration program. The international circles view it as tantamount to moving a population from a little country. It is a development success.

Unfortunately the transmigration in Irian Jaya now becomes a problem. It is interrelated with the ethnic, cultural, religious, OPM (Free Papua Organization), border-crossing, Melanesian pride and so on. There is concern about a large-scale transmigration program in Irian Jaya. Those who are against it assume that the moving of an entire village to another settlement is some sort of a "socio-cultural colonization." Worse still, transmigration, as recently observed by a scientist, is likely to be regarded as "Javanization."

All these are a bad, poisonous and unconstructive assumption However, one should not overact and ignores warning, if any. Recently the Gajah Mada University in Jogya held a seminar on transmigration. The seminar discussed matters to be taken into account in the resettlement of people in Irian Jaya where there is sensitivity among the local people in adapting themselves to their brothers from another region. The university also despatched a special team headed by Prof.Dr. Moebyarto to observe and analyze the program over there. The team has offered a recommendation that the transmigration program be not "forced" to reach its target. The government appeared to be inclined to give thought to the recommendation.

But, in his statement to the press following his meeting with President Soeharto at Bina Graha last Monday, Transmigration Minister Martono seemed to show the government's real attitude. The transmigration to Irian Jaya would be increased to 136,000 families, declared the minister. Martono said the anti-transmigration attitude is a political move made by the Free Papua movement (GPM).

Surely the government has the right to maintain and even increase the transmigration-program target. But apart from the mere ambition to make a success of the program, we ought to think of a way to deal with the GPM (Free Papua Movement) maneuvers, to bring the resettlers into harmony with the local people, to show the national government's competence in Irian Jaya without incurring any new side-effects, and to develop Irian Jaya without having to disrupt the national unity and union. What is the use of attaining targets at the expense of political security, social harmony, and even at the risk of creating a disintegration which is not wanted by anybody except Indonesia's enemies?

A certain impression, though naive, should be made known. That is, the idea that the transmigration, as it is now, is still in the context of "dumping the population excesses from Java outside the island" on a large scale. Certainly this is a negative voice but it is necessary to eliminate the idea to prevent it from becoming a widespread issue.

In connection with the development of Irian Jaya, its peculiar economic conditions which can be modernly exploited should be studied. A DPR member from Irian Jaya is of the view that as the quality of the soil in Irian Jaya is not suitable for agriculture, its economic development should be stressed on the mining and industrial development sector.

This means that the transmigrants to Irian Jaya should comprise agriculturally and technically skilled people who can be employed to form the backbone of the human resources in the work to start mineral and industrial projects in the region.

THE TRIBAL PEOPLE OF THE NARMADA VALLEY:

DAMNED BY THE WORLD BANK

Marcus Colchester, Survival International (*)

> "We must approach the tribal people with affection and friendliness and come to them as a liberating force. We must let them feel that we come to give and not to take something away from them. That is the kind of psychological integration India needs. If on the other hand, they feel you have come to impose yourselves upon them or that we go to them in order to try to change their methods of living, to take away their land and to encourage businessmen to exploit them, then the fault is ours, for it only means that our approach to the tribal people is wholly wrong.....The Government of India is determined to help tribal people grow according to their own genius and tradition"
>
> (Jawaharlal Nehru, 1952)

Introduction

As many as two million tribal people in India are threatened with displacement from their traditional lands by dams. Once hailed by Nehru as "the temples of modern India", these giant hydropower and irrigation schemes have become the altars on which the futures of some 5% of the the country's 40 million tribal people are to be sacrificed in the name of "progress".

The dams, which are designed to bring India into the "modern" world by providing hydropower for urban industries and water for irrigation projects, are integral to the Government's five year plans. Yet the costly schemes, while ardently promoted by politicians and businessmen, scarcely benefit the majority of the country's rural poor, who make up the bulk of the population.

Criticism for these massive damming projects is becoming increasingly widespread in India. Community development organisations and a growing section of the general population have organised themselves into pressure groups active in defence of the mainly inarticulate tribal peoples who find themselves at the mercy of the apparently undemocratic and unaccountable forces of development. Even state institutions have been markedly critical of such projects. For example, the Department of Tribal Development of the Indian Government's Ministry of Home Affairs has stated that:

> "Lands acquired for such public works as industrial, mining, power, irrigation and even some forest projects has led to displacement of a large number of tribal families. Since these families have not been capable of claiming a share in the new activities for want of education, enterprise and skill, they were rendered more or less resourceless and, in some cases, destitute."

Observers of this tragic process who are not compromised by their positions within government have been able to be somewhat more outspoken about it:

> "In a country like India, with a high population density and high level of poverty, virtually every ecological niche is occupied by some occupational or cultural human group for its sustenance. Each time an ecological niche is degraded or its resources appropriated by the more powerful in society, the deprived weaker sections become further impoverished. For instance, the steady destruction of our natural forests, pasture lands and coastal water bodies has not only meant an increased economic poverty for millions of tribals, nomads and traditional fisherfolk, but also a slow cultural and social death: a dismal change from rugged self-sufficient human beings to abjectly dependent landless labourers and squalor-stricken urban migrants. Current development can in fact be described as the process by which the rich and

more powerful reallocate the nation's natural resources in their favour and modern technology is the tool that subserves this process."

(Agarwal 1982)

The Narmada Valley Project

One of the largest and most complex of these giant development schemes is that taking place in the Narmada Valley, named after the river, one of the most sacred in all India, which flows through the states of Gujarat, Madhya Pradesh and Maharashtra. The total project, which will include 30 major dams (irrigating > 10,000 hectares), 135 medium dams (irrigating 400 - 10,000 has.) and no less than 3,000 minor dams (<400 has.), will inundate some 350,000 hectares of land including some 11% of the forests of the Narmada Valley. According to the National Institute of Urban Planning some 1 million people, most of them tribal, will have to be relocated to make way for these dams.

The whole project, first envisaged in the late forties but only revived in the mid-sixties, is due for completion in 1995. When "on stream" the project will supposedly generate some 3830 megawatts of electricity for use in India's burgeoning industries. The project is also planned to provide irrigation for 496,000 hectares of agricultural land. The World Bank claims that 11 million people will benefit from the project, which will cost over **six billion** dollars at 1983 prices (World Bank 1984, n.d.).

Sardar Sarovar

One of the most advanced of the dams in this ambitious project is the Sardar Sarovar scheme, a World Bank funded venture, that is already tellingly revealing the very serious problems to which the tribespeople are to be subjected to make way for this "development".

The dam itself will be 155 metres high and will impound a reservoir 210 kilometres long, submerging approximately 370 square kilometres. It will have an installed capacity of 1450 megawatts and will provide 40,000 cusecs of irrigation water to 12 of the 19 districts of Gujarat and even parts of Rajasthan, served by a main canal over 440 kms long. The World Bank is funding this project to the tune of US$ 300 million: US$ 200 million as an IBRD loan (with normal Bank interest rates) and a further US$ 100 million as an IDA credit (with the IDA's usual "soft" terms).

Some 236 communities in three different states will have to be relocated to make way for the Sardar Sarovar scheme. A total of more than 67,340 people. Of these as many as 59,572 are tribal people, though for various reasons these figures are probably underestimates (World Bank 1984).

Tribal peoples at risk

The tribal people, whose futures are set in jeopardy by the Sardar Sarovar Project, belong in the majority to the groups referred to as Tadavis, Vasavas, Dungari Bhils, Rathwas, Naikas and Goval. Of these the Tadavis predominate, constituting some 65% of the population to be affected. The Dungari Bhils are the second largest group, making up about 25%.

The groups vary considerably in the extent of their insertion into the national economy. Some groups are virtually landless and have migrated into the area relatively recently. They survive as a migrant labour force. The majority, however, have been in the area as long as historical records relate. Some communities, especially those in Madhya Pradesh, practise an efficient agricultural system on their rain fed fields, which is notable for being more productive than that of their non-tribal neighbours. The more isolated Bhils remain essentially marginal to the market economy. They are held in low esteem locally. According to one of the government officials directing the rehabilitation programme associated with the project: "they are in a 'jungle state': we are bringing them into civilisation" (Kothari et al 1984).

The great majority of these tribal people are, according to the laws prevalent in India, "landless". Many of the tribal people work lands that are in fact

titled to an elder relative. Large parts of the tribal territories have been arrogated to the State through their designation as "Forest Reserves". Other tribal areas have been designated as (state-owned) "waste lands" and "traverse (Kharaba) land". In spite of the fact that these people may be practising agriculture on what they consider their traditional territories, the State regards them as "landless": their cultivations on state lands are "illegal encroachments".

The tribal people's use of their traditional lands extends far beyond the small plots that they cultivate. Some 32% of their area remains under forest cover, despite the depredations made by local contractors to supply the woodfuel and timber needs of the growing urban centres and the voracious demands for pulp. The forests supply the tribal people with essential supplements to their economies. Fodder for their draft animals, fuelwood for their cooking, materials for building their houses and minor forest produce for sale in the regional markets.

The effects of resettlement

In a detailed assessment of the likely impact of the Sardar Sarovar project, a World Bank official has noted that it is generally true that such projects are carried out against the will of the majority of those to be relocated. These people are, according to the same official, generally "relatively isolated, illiterate, low income and powerless rural people with strong ties to their land and to community groupings larger than the family" (Kothari et al 1984). Relocation for these people can, according to the World Bank, "be expected to cause multi-dimensional stress" (World Bank 1984).

The stress associated with relocation is analysed in the Bank's study in terms of three categories. "Psychological" stress includes the "grieving-for-a-lost-home syndrome", "anxiety for the future" and "feelings of impotence associated with one's inability to protect one's home and community from disruption". These stresses may become so great as to cause problems under the second category of stress, "physiological", discernible as an actual increase in health disorders. While such stress problems may be reversible, the stress factors that come under the rubric "socio-cultural stress" may not be. The "cessation of a range of familiar and satisfying economic, social and religious activities which are tied to the oustees old home" are related to an overall breakdown in society, particularly political structures. The leaders of the "oustee" communities find themeselves in a "no-win situation", since they lose legitimacy if they approve the removal of their people against the will of the majority, and if they oppose the removal, because ultimately they are proved powerless.

Of course, such an analysis tells only a small part of the story. The removal of tribal peoples from their ancestral lands to make way for development is generally fatal for the entire way of life of the tribal communities. Traditional marriage systems that link together neighbouring communities are critically disrupted by relocation and are rarely reconstituted. The close ties between the society and the traditional forest environment are broken. Subtle patterns of resource use, developed over centuries, are shattered. Social and religious ceremonies linking the tribal people to their environment and to specific burial grounds and sacred sites become meaningless. The very ground of their being is cut from them.

Moreover, as the World Bank recognises, "rehabilitation" following removal is unlikely to benefit the tribal people even financially. According to the World Bank "the odds are high that the majority of (Sardar Sarovar's) .... oustees will be worse off following removal" (Kothari et al 1984). "The current policies... will not only lower living standards among large numbers of oustees but accelerate the process of environmental degradation" (World Bank 1984).

Problems with compulsory relocation

The World Bank's sanguine appraisal of the prospects for the "oustees" is based on a detailed evaluation of previous resettlement programmes carried out in India. Seven factors have been isolated by this study as largely responsible for this sorry record:

1. the absence of a national policy regarding resettlement

2. certain provisions of the 1894 Land Acquisitions Act

3. the emphasis on cash compensation

4. the tendency to relocate oustees as individual households rather than as communities

5. the failure of the government to make use of social science expertise relating to compulsory relocation

6. the execution of the relocation by the Irrigation and Revenue Departments, which are neither qualified nor motivated to carry out the task

7. the almost total absence of a system for monitoring and evaluating the relocation programme

Tensions are generated among the oustees because cash compensation is only paid to "legal" land-owners, giving rise to rivalries and jealousies. Community ties are further broken by the piecemeal pattern of relocation. Many of the tribal people declared "landless" receive no compensation at all. Those who do, unused to treating land as a saleable commodity and inexperienced in the use of cash anyway, fall easy prey to the unscrupulous. Besides, the prices paid for land are frequently nugatory and inadequate for the tribal people to acquire equivalent lands on the market. Land speculation and rising land prices in the relocation areas exaggerate the problem. Other members of the local communities who made a living as artisans etc, deprived of the communities they depended on, become destitute. Even where the tribal people do manage to resettle on pieces of land, they are deprived of contact with their traditional environment. Forest produce, once integral to their way of life, becomes unobtainable. Finally, the increased pressure on resources as the landless oustees seek to make a living by clearing cultivations on watersheds and in other marginal areas accelerates the process of enviromental degradation.

World Bank recommendations

The World Bank's internal document, referred to here, also makes specific recommendations for overcoming these problems. A national policy regarding resettlement programmes should be carefully worked out. Measures should be taken to ensure that all oustees are given land in compensation, not just those who have managed to obtain legal title. Resettlement should take into consideration the preferences of the peoples themselves to be relocated as communities. Cash compensation should only be offered to oustees who reject compensation with land. Resettlement should become the responsibility of a specially created government agency which should solicit the advice of local representatives and community development groups active on the tribal people's behalf. Careful plans should be laid not just for relocating the oustees but for promoting their economic development after relocation and the programme should be continuously monitored to allow for modifications in the procedures.

Since the drafting of these recommendations considerable pressure has been exerted on senior Bank officials, both from within the Bank and from international development and human rights organisations, including Survival International, to comply with these recommendations and to ensure that the resettlement programme provides a reasonable future to the displaced tribal people. After drawn out negotiations with the Indian authorities, the Bank finally announced that it had incorporated a comprehensive programme for the displaced tribal people into the loan agreements signed in May 1985 with the Governments of India and the three participating States of Gujarat, Madhya Pradesh and Maharashtra. The Bank refused, however, to release copies of the loan agreement.

Having obtained a copy of the document by independent means, Survival International has been able to determine that the loan agreement not only does not incorporate all the recommendations made by the Bank's consultants, but does not even satisfy the Bank's own guidelines for the development of tribal areas

(World Bank 1982). Moreover, the agreement as it stands is a clear breach of international law. Far from recognising the rights of tribal peoples to the collective ownership of their traditional lands, the agreement considers "landless" all tribal people (about 74%) who lack individual land titles. There are no measures for ensuring that compensation is paid to the tribal people for the loss of the uncultivated portions of their land. Inadequate provisions exist for resettling the tribal people in forest areas similar to those that they have been forced to leave. As things stand only 1% of the project's costs have been allocated to the relocation, less than has been spent housing the few hundred project staff !

Violation of International Law

Survival International has repeatedly drawn the Bank's attention to the terms of the International Labour Organisation's Convention 107, relating to Tribal and Indigenous Populations, which has been signed by India. The organisation has in particular singled out three articles of the convention, which the Bank is clearly violating:

> **Article 6.**
> The improvement of the conditions of life and work and level of eduction of the populations concerned shall be given **high priority** in plans for the over-all economic development of areas inhabited by these populations. Special projects for the economic development of the areas in question shall also be designed as to promote such improvement. (Emphasis added).
>
> **Article 11.**
> The right of ownership, collective or individual, of the members of the populations concerned over the lands which these populations **traditionally** occupy shall be recognised. (Emphasis added).
>
> **Article 12.**
> 2. When in such cases removal of these populations is necessary as an exceptional measure, they shall be provided with lands of quality at least equal to that of the lands previously **occupied** by them, suitable for their present needs and future development. (Emphasis added).

Survival International has also focused attention on the Bank's own guidelines for the development of tribal areas, published in 1982 after the Bank had come under severe criticism for its support for development programmes on tribal lands in Brazilian Amazonia and the Philippines:

> "...the Bank will assist projects within areas used or occupied by tribal people only if it is satisfied that best efforts have been made to obtain the voluntary, full, and conscionable agreement of the tribal people... and that the project design and implementation strategy are appropriate to meet the special needs and wishes of such peoples."
>
> "Similarily, the Bank will not support projects on tribal lands, or that will affect tribal lands, unless the tribal society is in agreement with the objectives of the project, as they affect the tribe, and unless it is assured that the borrower has the capability of implementing effective measures to safeguard tribal populations and their lands against any harmful side effects resulting from the project"
>
> "Certain basic needs must be acknowledged and accomodated if tribal groups are to benefit from -- rather than be harmed by -- development projects....: (a) recognition of territorial rights, (b) protection from introduced diseases (c) time to adapt to the national society and (d) self-determination."
>
> "Such a policy of self-determination emphasizes the choice of tribal groups to their own way of life and seeks, therefore, to minimize the imposition of different social or economic systems until such a time as

the tribal society is sufficiently robust and resilient to tolerate the effects of change...The following conditions are essential....:

a. National governments and international organizations must support rights to land used or occupied by tribal people, to their ethnic identity, and to cultural autonomy.

b. The tribe must be provided with interim safeguards that enable it to deal with unwelcome outside influences on its own land until the tribe adapts sufficiently.

c. Neither the nation nor the nontribal neighbors should compete with the tribal society on its own lands for its resources."

(World Bank 1982)

Land ownership in the Sardar Sarovar Area

The agreement signed between the World Bank and the Governments of India, Gujarat, Madhya Pradesh and Maharashtra regarding the "Resettlmemt and Rehabilitation" (R&R) programme for resettling tribal people in the Sardar Sarovar Dam and Power Project, makes a clear distinction between "landed" tribal people, who will receive compensation for the loss of certain of their cultivated plots and "landless" tribal people who are only offered the rather vague assurance that they will be "rehabilitated in the agricultural and nonagricultural sectors, as the case may be, and shall be entitled to stable means of livelihood..".

Any evaluation of the likely effects of such an R&R programme must, therefore, take as it's starting point the actual pattern of land ownership in the area in question, as the criterion of "owning" land is made critical in determining the likely fate of each individual tribal person.

The pattern of cultivation in the village of Vadgam, one of the villages already in the process of being dispossessed by the dam's construction programme, is typical. Legally, there are only 124 land holdings, totalling 629 acres, in Vadgam, though there 464 families dependent on these holdings. 17 farmers have no rights at all to private land. Since these holdings are inadequate for the tribal people's subsistence, they also cultivate 453 acres of Kharaba (traverse) land and 452 acres of Forest land. The tribal people have not been able to acquire legal title to these cultivations, which are treated as "illegal encroachments" on State land. Many of the tribal people have paid penalties to the various authorities for their "illegal" use of this land.

Taking the 19 villages in Gujarat to be affected by the Sardar Sarovar Project together, it can be noted that of the 2394 families inhabiting these villages only 1973 have access to private land, these latter having to share only 633 actual holdings. In some villages more than 80% of the families have no legal rights to private lands. Depending on how the criteria of the R&R agreement are applied to the displaced tribal people in Gujarat, it seems that as few as 26% of the families (633/2394) will be treated as "landed" and thus liable to compensation in land.

Implementation of Agreement

Aside from the fact that the R&R agreement is in any case inadequate, being liable to result in serious problems for the displaced tribal people and not conforming with international law, there is the open question of whether the local authorities will satisfactorily uphold the agreement anyway.

Attention has focused on the 19 villages in Gujarat which are already being affected by the scheme. Social workers in the region alerted the tribal people to the serious shortcomings of the Gujarat government's policy regarding resettlement. When the tribal people discovered that the government had no intention of compensating those without title for the loss of their cultivations, let alone other lands, they came out in open protest against the scheme.

Although the Gujarat authorities, in response to this public pressure, have made public statements promising to fairly compensate all the tribal people for the loss of their lands, yet they have consistently refused to set this promise down in writing. As the actual process of building rock-filled retaining dykes across their lands commenced, the tribal people took their case to the Supreme Court of India, where it has become clear from one after another affidavit being filed by the Government of Gujarat that it regards the "wasteland" and "forest reserve" cultivations of the tribal people as nothing more than illegal encroachments on state land, for the loss of which the tribal people deserve no compensation.

Moreover, in response to claims for the release of State owned "Forest Reserves" for the rehabilitation of the tribal oustees, the Government has argued that: "Resettling the tribal people on government land would involve using forest areas. This would have caused an ecological imbalance and led to the destruction of valuable resources" (Skaria 1985). The supreme irony of the fact that the government is at the same time engaged in a massive project that will flood 11% of all the forests of the Narmada Valley has apparently escaped the government's comprehension.

As the court case in the Supreme Court of India has made clear, the Gujarat authorities have seriously abused their powers in forcibly dispossessing tribal people of their lands. Even tribal people who have land titles have found the top soil from their fields being trundled away in trucks leaving them destitute.

The latest news from the region is that the Government of Gujarat has been trying to repudiate the legal agreement with the World Bank regarding the rehabilitation programme. Whether it succeeds in this or not it is clear that there exists little political will in Gujarat to offer a fair deal to the tribal people. Their future thus seems grim.

The Prospects

The Sardar Sarovar is but the most advanced of a whole series of dams planned for the Narmada Valley. As things stand it seems clear that a vast number of tribal people stand to be dispossessed by the scheme, their traditional lands flooded, their livelihoods destroyed. Considering the appalling record of previous resettlement programmes in India and the extreme reluctance of the Indian state governments to comply with even the inadequate safeguards that the World Bank has tried to impose for the Sardar Sarovar scheme, it is quite clear that thousands of tribal people are to be condemned to increasing poverty.

By the time this article is published, the fate of the sixty thousand tribal people to be dispossessed by the Sardar Sarovar scheme will have been sealed. Latest reports indicate that the Bank is due to effect a final transfer of its US$ 300 million on November 9 1985. Rushing to meet deadlines that are set by financial and economic considerations rather than by the social needs of those most directly affected by the project, it seems inevitable at this late juncture that the Bank will go ahead with its loans despite the clear evidence that the project is morally, legally, environmentally and maybe even economically suspect.

Perhaps the most alarming aspect of the Sardar Sarovar scheme is the fact that the resettlement programme associated with it may, despite its very serious shortcomings, be the best rather than worst to be associated with the Narmada Valley project as a whole. Further up the valley, in Madhya Pradesh, a second major dam, Narmada Sagar, promises to cause even greater dislocation of the tribal peoples' lives.

As the World Bank notes, "if the Narmada Sagar, Sardar Sarovar, Omkareshwar and Maheshwar projects are all completed, the State of Madhya Pradesh will be responsible for the largest river-basin population resettlement in the world to date. Approximately 80,500 people will be resettled by the Narmada Sagar reservoir..." (Partridge 1984). Recognising the enormous scale of this programme the same report attempts to grapple with the fate of the displaced people "whose homes and livelihoods have been destroyed and those (approx. 40,000) hosts whose economic and social systems will be stretched to the breaking point by the influx of the homeless" (idem.).

The real dilemma faced by the planners is the lack of land available for resettling the thousands of people to be relocated. The same report notes:

> "In the past, planners, administrators, and politicians frequently assumed (accurately or not) that displaced populations could be compensated for the loss of valuable agricultural lands with replacement lands of equal value elsewhere. Whether through purchase of private land tracts, nationalization of large land holdings, or through simply opening up putatively uninhabited forest and savanah lands to colonization, the guiding strategy has been moving the entire displaced population to equivalent replacement land. Throwing all oustees onto the open market to purchase replacement lands in already settled areas with compensation monies has proven to be such a disastrous policy that it should be rejected at the outset. However, in many countries today land anywhere near comparable in value is less and less available for colonization. Planning thus far for the Narmada Sagar Project resettlement is based on **the realistic and innovative assumption that many oustees will not be able to acquire equivalent land to replace that flooded.**" (Emphasis added).

Chillingly, the same report concludes:

> "The NPA (Narmada Planning Authority) at this point lacks the organizational strength and professional personnel to carry out a resettlement and rehabilitation project of great magnitude..."

What is at stake in the Narmada Valley Project is not just the physical survival of the 1 million people who will be displaced by the overall scheme but their survival as viable societies. Yet the World Bank is so little concerned for the social life of the people to be affected by the project that it takes as its starting point the fact that a whole "way of life will be destroyed by displacement" (Partridge op. cit. Appendix 2, p.1).

It is time the taxpayers in the first world, who provide the bulk of the World Bank's funding, started asking themselves if they are happy about their complicity in these ethnocidal schemes. If not it is time they began to protest. For while they remain silent, the ways of life of tribal people all over the world are being sacrificed on the altars of "economic pragmatism".

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* **Survival International** is human rights organisation that defends the rights of threatened tribal peoples to survival, self-determination and the use and ownership of their traditional lands. **Survival International**, 29, Craven Street, London, WC2N 5NT. Tel: 01-839-3267.

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104 medico friend circle bulletin

AUGUST 1984

NARMADA PROJECT AND THE TRIBALS*

— don't let them drown in despair

Preamble

We are three voluntary groups, working since 1980 amongst the tribals who have been ousted from their traditional homelands by the Sardar Sarovar Project on the Narmada river undertaken by the the Government of Gujarat. Our experience regarding the problems of these tribal rehabilitees has raised many questions and issues in our minds which we would like to share with you.

When ambitious developmental projects like the Narmada Project are undertaken, a large number of families are asked to leave their lands, houses, familiar surroundings and settle elsewhere. This is justified on the basis of 'public purpose' which is essentially that much larger benefits accrue to much larger populations who would otherwise live at a low standard of living. This, of course, must imply that those who give up everything so that the project can become a reality, must also not suffer a drop in their standard of living. In fact it is necessary that they too improve their lot commensurate with similar improvements in the standard of living of the beneficiaries of the project. Our concern is focussed on the social and economic suffering that these oustees are going to face if the governments rehabilitation policy on paper does not match with the actual programme in the field. We have reason to believe that certain ambiguities in policy and trends in implementation seen in that area are going to seriously affect the health, life and future of these people.

Background

About 220 villages in the three States of Gujarat, Maharashtra and Madhya Pradesh are going to be affected by the inundation of large tracts in this area. Among them we have worked with the illiterate tribals of 19 villages in Gujarat and most of the facts and issues discussed derive out of this experience. The main occupation of tribals in this area is agriculture. The income from agriculture is supplemented through collection of forest produce, hunting and other forms of labour.

Due to cultural reasons and administrative hurdles at local levels, the overwhelming majority of tribals have had joint holdings for generations together. Thus a seemingly large land holding (more than 5 acres) in the name of one person, in reality may mean that two or more families are actually earning their livelihood from it.

There are a few landless labourers. Even these earn their livelihood by cultivating government owned, fallow forest land or other waste land. It is not possible to estimate the amount of land brought under such cultivation since this is treated as unauthorised cultivation. Whatever the technicality of such a situation, it is an established fact that they have been living and cultivating such lands for many years and they are entitled to compensation for the loss of this only source of living.

Water Dispute Tribunal

A tribunal was set up to study the problems arising out of the project implementation. Its award took into account the factors of total dependence on land of these tribals as well as the responsibility of the rehabilitation programme in removing the poverty of the 'oustees'. It, therefore, provided land for land compensation (ie., if more than 25 percent of land owned by any family was acquired for the project they were to be given an equal amount of irrigable land). It also made a specific provision of a minimum of 5 acres of irrigable land to all those whose land holding was less than 5 acres of land. It also stated that first preference would be given for rehabilitation within the command area of the project. However, if the 'oustees' did not want to settle there, they were to be settled in their respective states on a similar basis. In addition, it was decided that the agricultural lands were not to be provided free of cost, but the occupancy price should be recovered from them in 20 yearly interest free instalments; the first instalment being half the compensation received by the 'oustees'. The tribunal has also made the proviso that if an individual is losing atleast 75 percent of his land he should have the option of surrendering the rest of his land as well. This award on the face of it seemed a relatively fair policy and it was hoped that with proper implementation it would tackle all the grievances of the tribals.

Some ambiguities

1. The Narmada Tribunal being an inter-state water dispute tribunal took into account the rehabilitation of oustees from Madhya Pradesh and Maharashtra. No reference was made to those from Gujarat! Clearly what applies to Maharashtra and Madhya Pradesh should apply to oustees of Gujarat as well; but the government of Gujarat has not earmarked any land in the command area of the project for this rehabilitation. Even though these tribals will be the first to be affected, they are expected to buy their own land and only after they do so other basic amenities like wells, schools and roads are to be provided.

* An appeal from Chatra Yuva Sangharsh Samiti, Rajpipla, Rajpipla Social Service Society, & Action Research in Community Health, Mangrol. February 1984.

2 There is a government resolution (G.R.) of June 1979 of the Irrigation Department of the Government of Gujarat which states that a minimum of 5 acres of land should be provided for each oustee family for their rehabilitation. There is, of course, no provision to provide irrigable land in the command area of the project in this resolution.

3. In the cost estimates in the project report prepared in 1980, the Government has made no provision for the cost of acquiring the total of 40000 acres of land that it would have to acquire to rehabilitate all the oustees. It has instead provided for only 1310 acres of land which is clearly meant for roads and house sites only. In fact the agricultural land to be acquired should be clearly more than the actual amount submerged, specially because a significant proportion of oustees who own less than 5 acres of land are to be provided at least 5 acres as per the directive of the tribunal. The argument that the land is not to be given free of cost, and hence the cost of acquisition need not be mentioned is not tenable, since clearly some initial investment will have to be made by the government

4 The usual analysis of land records do not show the reality of land holdings in a tribal region where joint holdings are significant. We reanalysed the land holdings not by the units as they are officially recorded but by the number of families who are actually dependent on the land. We found that there were 624 land holdings in the 18 villages surveyed, whereas the number of families actually dependent on them are 2109, since most are joint holdings. Also if holding is taken as the unit only 41.8% of the total holdings are less than 5 acres whereas if family is taken as the unit we found 94% of the families with a holding less than 5 acres!

Damming the tribals

'The construction of dams has effectively resulted in a direct assault on the country's tribal population. Dams are usually constructed in remote, forest areas where most of the tribal groups also live. The sudden influx of the modern system, destruction of the surrounding nature on which their lives are dependent, and ultimately displacement and resettlement, leaves a tradition-bound tribal family totally bewildered, powerless and on the verge of total social, cultural and economic collapse.'

— State of Environment Report, 1982, CSE.

Project implementation and its problems

Some problems have arisen due to the half hearted implementation of a watered down and modified government resolution. These are:

1. The 'oustees' have been shown lands which are so poor in quality and so far away from their traditional homeland (about 150 kms away) that their economic situation insecure as it was, would worsen further and their whole social and cultural life disrupted. Naturally they rejected such outrageous propositions.

ii. When the oustees refused the land the government asked them to purchase land from private land owners from their compensation money. The consequences of this were: (a) the oustees with less than 5 acres of land could not buy 5 acres of land which they were entitled to; (b) some could not even buy the land equal to what they had been originally cultivating; (c) the amenities that they were entitled to could not be had as per the law because of the wide scattering.

iii. It has not been possible for the illiterate tribals to deal on an equal footing with the high caste land owners in these land deals thrust upon them by the governments inaction. They have been cheated and exploited. In the beginning the Additional Collector gave active help and the deals were made relatively easily. However, even now these deals are not yet completely registered and the ownership of lands still rests with the original land owners. The whole matter depends on the goodwill of the concerned government official and in our experience there has been a general aloofness and reluctance on their part to get too involved.

iv) The Government of Gujarat has been pleading from the very beginning, that it is virtually impossible to give agricultural land to the oustees as no surplus land is available. Forest lands cannot be given, as only a few forests are left and other waste lands are scarce. However the government could instead purchase or acquire private lands in large tracts so that proper rehabilitation can be carried out, and rehabilitation of the oustees itself could be proclaimed to be a 'public purpose' in this respect.

v) In some villages the situation has arisen where 80% of the village land has been acquired. The land acquisition authority is refusing to acquire the remaining 20% of the land. This land is owned by 20 30 families; of these families, 4-5 of them happen to retain practically all their lands. If these lands are not to be acquired the isolation of these families will be near total. They will be cut off physically, socially and culturally. They will be deprived of other amenities like school, shops and health services. The land acquisition authority is taking a very rigid view of the land acquisition procedure which states that only land under submergence can be acquired.

vi) All the tribals in the affected villages of Gujarat have so far voluntarily surrendered their lands, and other villages are ready to follow suit. There is, however, still widespread uncertainty about the amount of compensation they would be paid. Since all the villages are losing their land under the same project, it is only fair that they should get a uniform and generous compensation. The State Government has not yet made up its mind and is vascillating on the issue. The traditional way of computing the amount of compensation by taking current market values for the land is clearly not applicable to tribal land since for many years no sale deeds have been concluded in this area. In its cost estimates the government has put an estimate of average cost of land acquisition at a rate

of Rs. 2000 per acre. This is totally unsatisfactory. This computed average compensation is so low that most of the villagers will be deprived of their land in exchange for a paltry sum, insufficient to buy adequate alternative land to survive. The consequence of such myopic action of the government can only be that the 'oustees' will become poorer.

To summarise the situation as it exists today — the government has abandoned its primary responsibility of providing land for land as directed by the tribunal, it has offered a totally inadequate sum of compensation; it has shown no aptitude or willingness to keep down the prices of the surrounding private lands which may have to be acquired by the outstees; it has used 'holding' as the unit and not 'family'. In its computation, thus hiding a concrete reality of the tribal regions; and its grave lack of responsibility has resulted in the ousted tribals becoming a prey to high caste land owners and their brokers. In brief, with a policy implementation that is insensitive to the human problem of these tribals it has made the tribunals recommendation of the objective of 'abolition of poverty of the oustees' a myth.

The 'Cost' Facade

Among others, the main claim for this inadequate implementation of the tribunals recommendation has been the cost factor. The government has claimed that land acquisition of the type recommended will push up the cost of the project. The following facts about the governments lop-sided sense of proportions in cost provisions for certain other aspects of the project is not only disturbing but also show how hollow the claim is in the first place.

The project report shows that the cost estimate of the whole rehabilitation programme including compensation for lands, houses etc., in all the 220 villages in the three States is Rs. 19.83 crores, while the cost estimates of the construction of the staff buildings at Kevadia Project Colony alone will be Rs. 23.45 crores. Add to this cost the miscellaneous and establishment costs of the same magnitude and we begin to sense how distorted is the government's sense of proportion. The scales which the government holds in its hand give more than twice the weightage to the temporary needs of providing houses only to a few hundred families of the project in one colony alone. In comparison to this, the entire rehabilitation cost of 10 to 12 thousand families scattered over 220 villages of the three States, which can make or mar their entire lives, gets less than half the weightage. What is more surprising is that the staff quarters, the water lines, the electricity lines, guest homes, the roads in the Kevadia Colony have already been built while the staff are yet to arrive. In contrast the notices to acquire lands from the people to be ousted has already been served but the vital issue of compensation for imminent land loss is still unresolved.

Suggested Changes in Policy

Having worked with the tribals in the 19 villages of Gujarat since 1980, we as a group have just begun to understand the problems from the perspectives of the tribals. We suggest the following changes in the policy of rehabilitation to make it sensitive and relevant to the socio-economic, cultural, psychological and ecological needs of these oustees who are as much the 'public' as any other.

The poverty of "development"

'In a country like India, with a high population density and high level of poverty, virtually every ecological niche is occupied by some occupational or cultural human group for its sustenance. Each time an ecological niche is degraded or its resources appropriated by the more powerful in society, the deprived, weaker sections become further impoverished. For instance, the steady destruction of our natural forests, pasture lands and coastal water bodies has not only meant increased economic poverty for millions of tribals, nomads and traditional fisherfolk, but also a slow cultural and social death: a dismal change from rugged self-sufficient human beings to abjectly dependent landless labourers and squalor-stricken urban migrants. Current development can in fact be described as the process by which the rich and more powerful reallocate the nation's natural resources in their favour and modern technology is the tool that subserves this process.'

— *The State of India's Environment*, 1982, *CSE*

i. The ambiguities in the rehabilitation proposals must be clarified immediately
   — the rehabilitation of displaced people in all three States is of equal importance;
   — the land for land compensation with the minimum provision of 5 acres should be implemented efficiently;
   — the land offered should be irrigable, agricultural and as far as possible within the command area of the project and preferably in their respective States.

ii. The government should either buy or acquire private lands in large tracts if it does not have any surplus within its own possession. Under no circumstances should the oustees be asked to purchase their own lands.

iii. The government should take a family as a unit (and not 'holding') and provide minimum of 5 acres of irrigable land to each oustee family irrespective of the fact whether they legally own their land or not. If necessary, the government can conduct a detailed survey in the villages to find out the amount of forest land and or other waste lands they are actually cultivating and provide them with alternate land in appropriate amounts.

iv. Not only must individuals (whose land acquired is more than 75%) be given the option of surrendering the rest but this rule must be extended to the villages as a whole as well if they are going to loose atleast 75% of their total agricultural land.

v. The compensation for land acquired must be adequate and sufficient to buy new land of atleast equivalent size keeping the basic objective of rehabilitation i.e., *abolition of poverty of the oustees in* mind.

The forest issue

Following our recent contacts in the interior villages of Gujarat and Maharashtra, we have come to understand another important dimension of this problem. The tribals, especially Dungari Bhils who, have lived in these forests for centuries cannot imagine how they will survive outside the forests. The forest is

so much a part of their life. Even outsiders like us who are quite sympathetic cannot fully appreciate or understand their attachment to the forests, let alone the aloof and faceless bureaucracy of the Narmada Project.

For these tribals, the forests are not only the fountain of their material needs, but also an integral part of their social, cultural and religious life. You have to be with them to understand what forests mean to them. No wonder that the inhabitants of these villages are refusing to move outside the forest area. Even those oustees who agree to resettle on non-forest lands, would opt for forest land, if the option is offered to them.

Why is the Government so adamantly refusing to release forest land for resettlement? The re-evaluation of the government's blanket policy with regard to forest land is urgently called for. The Government's argument is based on the laudable objective of 'conservation of forests" The plausibility of this argument is only superficial. It is clear now that the Government itself is destroying large tracts of forest in the name of 'development'. It also sanctions felling of the forest in the name of 'satisfaction of market needs'. Only when it comes to giving forest lands to tribals, the Government raises the bogey of 'Conservation of forests'. Hidden in this argument is the unfounded charge against the tribals that they are the culprits behind the massive deforestation. The facts if examined closely would reveal exactly the opposite story. The tribals have in fact protected the forests and their needs of forest wood is so small in comparison to the unsatiable hunger of the urban centres for timber that it is sheer perversion to say that they are destroying the forests.

We therefore make a demand that these tribals must be resettled only in Forest land, so that they can preserve their forest bound culture and way of life. In raising this demand we are not at all pitting ourselves against the 'conservation of forest' objective.

If forests are in danger, the tribals living in forests are not basically responsible for it. The objective of 'conservation of forests' and that of resettling the tribals in forests are not incompatible. Indeed they could with imagination become complementary objectives. We, however, challenge these so-called developmental schemes which are destroying both the forests and the defenceless tribals.

Conclusion

Through this report we have tried to bring to your notice the plight of these oustees of the Narmada project and the ambiguities and insensitivity of the government rehabilitation policy. Our attempts to bring about appropriate changes in the policy have made very little progress. We need your help to tackle this problem. We must act and act decisively if we do not want to let the tribals drown in despair!

Further reading

Dams Forests, Tribals and Health

1. *The State of India's Environment 1982*
   A Citizens Report from Centre for Science and Environment, 807 Vishal Bhavan, 95 Nehru Place, New Delhi 110019 (1982).
2. *Major Dams - a second look*
   LT Sharma and Ravi Sharma (Eds)
   Environmental Cell, Gandhi Peace Foundation, 223 Deen Dayal Upadhyaya Marg, New Delhi 110002 (1981)
3. *Report of the Committee on Forests and Tribals in India,*
   Government of India, Ministry of Home Affairs, Tribal Development Division, New Delhi 1982.
4. *Hills, dams and Forests.*
   Some field observations from the western ghats by Madhav Gadgil. Available from Centre for Theoretical Studies, Indian Institute of Science, Bangalore 560012.
5. *Forest, environment and People: Ecological values and social costs* Walter Fernandes (Ed), 1983. Rs. 15-00
6. *People and Forests: the Forest bill and a new forest policy*
   Desmond D'Abreo, 1982. Rs. 7-50
7. *Towards a new Forest Policy*— People's rights and environmental needs.
   Walter Fernandes and Sharad Kulkarni (Ed), 1983. Rs. 25-00
8. *Social Action*
   I S I Quarterly, April-June 1983 and July-September 1983 issues. (Nos 5 to 8 are available with the Indian Social Institute, Lodi Road, New Delhi 110003.)

ISSUE NO. 6—OCTOBER 1983

POOR DON'T BENEFIT

DAMS IN INDIA

Irrigation and electricity are two common priorities for developing countries. But if the price is massive losses of homes and livelihoods, this is too high a cost. This, unfortunately, is exactly the price being paid today in the Indian state of Gujarat.

A series of large dams are being built in the east of the state, backed, notably, by the World Bank.

The Ukai Dam, already in use in Gujarat

The dams, which may be important economically, lead to the flooding of huge areas, and tens, if not hundreds, of people are losing their homes and farms. The compensation offered is nowhere near enough to allow the "oustees" to begin again.

LATEST

The newest of these projects - the Narmarda Dam - is at present being considered by the World Bank, which has helped so far with design and 'feasibility studies'.

A voluntary legal aid, medical and general development group which Oxfam funds in Rajpipla, Gujarat, has recently written to the World Bank, urging it to push for decent rehabilitation of the 10,000 farming families who are about to lose their homes as a result of the dam. The group is not raising questions about the actual dam - in spite of their doubts about such large-scale irrigation projects - they are simply arguing that the provisions for rehabilitation of the "oustees" is scandalously inadequate.

DUBIOUS COMPENSATION

220 villages over 3 states will be flooded, and although the Gujarat State Government insists that oustees in the neighbouring states of Madya Pradesh and Maharashtra will receive acre-for-acre compensation of good land - and indeed a minimum of 5 acres per family - no such promise has been made to the Gujarat oustees. Moreover, such a rehabilitation scheme would require about 40,000 acres, yet the project's schedule only shows plans for acquiring 1,000 acres.

This, together with past experience, leads observers to predict that the oustees will be fobbed off with at most a token 2,000 rupees per acre compensation, which would not buy them the replacement land - although it would certainly please the powerful, land merchants of the area. In some cases compensation in land has already been offered, but the land is almost 100 miles away and of such poor quality that the oustees have turned it down, recognising that they would be better off with the cash.

A MERE 1% NEEDED

The entire budgetted cost for rehabilitation of the 10,000 families is 198 million rupees, compared with 234 million rupees to build a residential colony for the few hundred project staff. And the Rajpipla group have estimated that a fair and full rehabilitation programme would cost less than 1% of the total cost of building the dam. They are urging the World Bank to ensure that this minor but vital element is added to the schedule of costs.

◎ *Oxfam 2000 supporters have been asked to help their effort by writing to: Mr C.L. Robless, Division Chief for India, World Bank, Washington DC 20433, USA. - saying that the people who lose their land as a result of the Narmarda Dam in Gujarat (the Sardar Sarovar project) should receive decent full compensation with minimum disruption; that schools, clinics, roads, etc. should be provided. Finally, when planning aid projects in the future, emphasis should always be put on the human and environmental factors.*

CAMPAIGN FOR REAL AID

.....brief update

Some encouraging signals on official aid policy were contained in a recent UK Memorandum to the Development Assistance Committee of the OECD covering a number of "Real Aid" points.

◎ *For details of the key points of this report and suggestions for related action, please write to Oxfam 2000.*

* * *

A good account of British official aid and the "Real Aid" arguments are given in the recent Thrid World First magazine "Links" No.20 "Help Yourself: The Politics of Aid". This is available from Third World First, 232 Cowley Road, Oxford OX4 1UH, and costs £1.20.

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An all-Party Development Group has been set up recently in the House of Commons.

◎ *Write to your MP and ask if s/he is going to join this. The fisrt two subjects they are taking up for study are UK pharmaceutical trade with the Third World and UK Agricultural Aid to Africa. Both are very important issues and we would like all our MPs to take a serious interest in them.*

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STOP PRESS..... DEBT CRISIS EDM.....

An all-party group of MPs are about to table an Early Day Motion in Parliament on the World Debt Crisis. The motion will call on the Government to give urgent attention to the impact of this crisis on poor people.

If you are writing to your MP please ask whether s/he will sign this Motion.

LETTERS PAGE

We had hoped to include the regular letters page as well as a report from a reader on the Campaign Against the Arms Trade National Meeting, in this ISSUE. Unfortunately lack of space makes this impossible! We promise to include these features in ISSUE No.11 early in 1985.

The value of letter writing to the World Bank on the rehabilitation needs of this giant dam building project which they are funding, continues. As reported in ISSUE No.9 the World Bank has come a long way towards meeting points made to them by Oxfam 2000 subscribers.

NARMADA DAM PROJECT

3,000 people in India took part in a demonstration earlier this year to draw attention to the rehabilitation needs of those who will lose their land as a result of the project.

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The Bank recently stressed in the clearest terms yet that rehabilitation will now be an integral part of the project. But they have corrected a mistaken impression conveyed in ISSUE No.9. The World Bank now stress that they will not necessarily finance the rehabilitation costs themselves. The important thing is, however, that they ensure the funds are allocated!

It is important to maintain letter-writing until the agreements are signed to ensure that the World Bank does not revert from its current position.

◎ *If you have not yet written to the World Bank and would like to now, see ISSUEs 6 and 9 for necessary details (write to Oxfam 2000 for copies). Write to Mr C.L. Robless, Chief, India Division, South Asia Programmes Department, World Bank, 1818 High Street NW, Washington DC 20433, USA).*

◎ *If you have already written, why not write again saying you are delighted that they are insisting on the rehabilitation programme. Ask for an assurance that this will be an integral part of the project and that provisions will be made to ensure none of those made landless will be made worse off than before.*

SIERRA CLUB

STATEMENT OF LARRY WILLIAMS, THE SIERRA CLUB

BOTSWANA FILM

Senator KASTEN. Our next witness on this panel is Mr. Larry Williams, who is the Washington representative for the international programs of the Sierra Club.

Mr. WILLIAMS. Thank you, Mr. Chairman.

Mr. Chairman, I want to join my colleagues in thanking you for all the fine work you have done on the multilateral development banks. Bringing environmental consciousness to the multilateral development institutions is no small task, and it is going to be a long, long one.

I also want to thank you for hosting the movie last night on Botswana. I think that it was a very successful event.

Senator KASTEN. You can bring the popcorn next time.

Mr. WILLIAMS. I will bring the popcorn next time.

Sometimes, words and testimony like this don't bring it home like seeing the film. I think the film was very, very powerful.

You will receive testimony from David Wirth with the National Resources Defense Council, which deals primarily with the Botswana case, and I think you will find it very interesting reading.

One of the few positive things that have come out of the investigation on Botswana is a wire that turned up, that was sent from the AID Mission to the District of Columbia, telling the officials here that it was a terrible project to loan money on, it was devastating, and they shouldn't do it.

We commend AID for this work, and we hope that it will continue. AID, however, is telling us that the field investigations of bank projects by their missions is stretching the human and budget resources very thin. We think that this is a very vital activity of AID. It helps us and the Congress in reviewing these projects.

I would ask that the committee take a look at what kind of resources this is requiring, and just what we can do to help AID to be more effective in looking at these projects.

That is all I have to say.

[The prepared statement of Mr. Williams follows:]

STATEMENT OF THE SIERRA CLUB

Mr. Chairman and Members of the Subcommittee:

I am Larry Williams, Sierra Club Washington Representative for International Programs. I very much appreciate the opportunity to discuss with you the Sierra Clubs position for the funding of the Multilateral Development Banks for fiscal year 1987.

The Sierra Club appreciates and supports the work of this Subcommittee in its efforts to assure that sustainable, ecologically sound development be the basis for international development assistance efforts. We thank the members of this Subcommittee for their continuing active role in the effort to convince the Multilateral Development Banks (MDBs) that these principles must be closely and carefully integrated into the development process.

We agree with the conclusion of Treasury Deputy Assistant Secretary for Developing Nations, James Conrow, in his letter of January 17, 1986 to the House Banking Subcommittee. "...in general", states Conrow, "we are finding a heightened awareness in the banks of the environmental aspects of projects. However, I do not yet feel that it is time to relax. We continue to encounter instances of funding proposals being put forward with environmental aspects being put aside or left for later study."[1/]

We also believe that some progress is being made, however, it is often more appearance than substance. We must not forget that the Banks are only in the beginning stages of what will probably be a long learning process. The banks must realize the critical importance of ensuring the preservation and enhancement of the recipient nations natural resource base when considering loan proposals. This integration of sustainable natural resource development is vital not only from an environmental standpoint but from an economic one as well.

Sec. Baker noted in his FY 1987 MDB budget statement before this Subcommittee that the Department's chief concern "is that too often the MDBs yield to borrower intransigence on improving loan quality issues."[2/] While, he was referring only to the need for sound economic policies, he could have also included that the MDBs seem to ignore, or

fail to insist upon, conditions which might make their loans less environmentally destructive.

This process of re-educating the banks is not unlike that which the federal agencies experienced in 1969 when the National Environmental Policy Act (NEPA) was passed by the Congress. As you may remember, most of the federal agencies loudly protested the environmental mandates under NEPA because they were convinced that the environmental consequences of their actions were already being fully considered. It was a long, slow process for the federal agencies, requiring many citizen law suits and much proding by the Congress. It was necessary that this occur, however, in order that true integration of environmental considerations into federal planning be achieved. The federal response to NEPA may never be totally adequate but has improved considerably since 1969. Although this will be a lengthy process, we hope it will take less time for the MDB's to accomplish.

We are also pleased with the perseverance that the Departments of Treasury and State have shown in addressing this problem concerning the banks loan policies, as they have been more than willing to work with our organizations on a day-to-day basis. The Treasury Department's four member MDB loan analysis group has recently acquired the capability to systematically identify and assess the environmental aspects of project proposals in cooperation with the State Department.[3/] This internal review process cannot be expected to identify all of those loan proposals with environmental problems as the information furnished by the Banks is of low quality. We hope however, that the quality of this environmental analysis improves quickly. It is not our objective to make the staff of the Treasury Department the experts on human and resource management. Rather our goal is to educate the MDBs so that the Banks develop the expertise to evaluate their project proposals for the long term resource and human impacts without constant outside supervision. Only by our continual monitoring and questioning will the Banks begin to seriously look at the sustained resource management aspects of their loan policies.

This Subcommittee is aware that the Treasury Department and the Department of State have been working together since 1984 to review MDB loan proposals. This project review committee now looks at the environmental aspects of the loans. In addition, the Agency for International Development (AID) is sending the MDB loan proposals to their missions for review. We are told that AID has been very useful in

providing valuable on-the-ground expertise. However, we have been told by AID staffers that this service is stretching AID's financial and human resources to the breaking point. AID's budget is already being stretched as they attempt to keep track of the environmental impacts of their own loans. We urge the Subcommittee to investigate further the budgetary problems this MDB loan review process is causing AID. We hope that additional funds could be found, if they are indeed needed, to insure that AID continues to monitor Bank loan proposals.

The need to understand the relationship between a sound economic policy and maintaining or developing a sustainable natural resource base in the developing nations must be integrated into the Treasury Department's thinking at all levels. When Treasury Secretary James Baker recently appeared before the Congress to support the Administration's budget request for the MDBs, he outlined a three-point program aimed at improving debtors' growth prospects. He referred to this program as a "Program for Sustained Growth" which involves the following elements:

(1) credible policy reform by the debtor nations;

(2) an enhanced role for the international financial institutions, particularly the World Bank; and,

(3) significant net new lending from the commercial banks.[4/]

We think that the first goal should be expanded to say: "credible policy reform by the debtor nations and the MDBs including the adoption of sustained natural resource management policies". This policy would call on the MDBs to refuse loans which would jeopardize a developing nation's ability to maintain or develop sustainable resource management. There is no question that a strong economy is directly dependent on a sustainable natural resource base. No nation can long maintain a stable economy without also maintaining a sustainable natural resource base.

Later in his statement, Sec. Baker observed that "projects in environmentally sensitive sectors should only be accepted if environmental aspects have been thought through, and if measures necessary for sustainable development have been identified and any necessary funding assured." We strongly agree with this observation and hope that the Department's Program for Sustained Growth will be modified to include this vital fourth-point.

We support the Treasury Department's funding requests for FY 1987.

We feel it is necessary that the U.S. abide at this time to its previous funding committments for the MDBs. To turn away from these committments now because Banks have not responded to our demands, could hurt our credibility with the other donor nations whom we are asking to join us in urging that changes be made in the MDBs environmental management policies.

We don't want our support of the Administrations MDB funding request, however, to be taken as a signal that we think the MDBs are doing an adequate job in addressing their natural resource management problems. We feel that very little progress has been made within the World Bank or the Inter-American Development Bank despite their claims to the contrary. The World Bank's most visable response to Congressional and Administration requests for environmental reform was to publish an expanded section in their last annual report defending their environmental sensitivity to project design. A public relations response such as this tells us that they are aware of our concerns but they are not yet willing to concede that their operation is deficient in this area.

The Inter-American Development Bank (IDB) is not doing much better. This Subcommittee is aware, I am sure, that the IDB established the inter-departmental Environmental Management Committee over two years ago, in November 1983. The Treasury Department reported to the Congress on March 4, 1986, that since its establishment the IDB Committee on the Environment has "reviewed in detail" only eight projects since its establishment.[5/] (I believe the correct number of project reviews has now risen to ten.) Given that the IDB has funded approximately 170 projects since October 1983, we question the comprehensiveness of the Environmental Management Committee's work.

In addition to this small number of project reviews, the Treasury Department observed in its report of March 4, that the depth of analysis may be less than desirable. For example, the IDB told the Treasury Department that anthropologist Paul Henley of the UK "had played a role in preparing the way for development..." in evaluating the impact of a proposed Venezuelan bauxite mining project on the tribe of Panare Indians.[6/] Later the Treasury Department discovered that Mr. Henley "had never worked as a consultant for the regional development agency."[7/] Treasury concluded that the Committee might usefully have probed this aspect of the project more thoroughly."[8/] We fully agree with the Treasury Department's conclusion.

1. James Conrow, the Deputy Assistant Secretary for Developing Nations for the Treasury Department report to Rep. Stan Lundine, Chairman of the Subcommittee on International Development Institutions and Finance of January 17, 1986, page 1.
2. Statement of Treasury Secretary James Baker before the Senate Subcommittee on Foreign Operations of the Committee on Appropriations, March 12, 1986, page 3.
3. Conrow, op. cit., page 1.
4. Baker, op. cit., page 1.
5. Letter to Rep. Stan Lundine, Chairman, Subcommittee on International Development Institutions and Finance Committee on Banking, Finance and Urban Affairs, March 4, 1986, from James W. Conrow.
6. Ibid, Page 4.
7. Ibid, page 4.
8. Ibid, page 4.

PROGRAM SUCCESSES

Senator KASTEN. Let me, first, thank all of you for your comments. I think that we have come a long way from a couple of years ago when we were talking about these issues. I think, as we look at our limited success to date, it makes us more optimistic about what we might be able to do in the next year or so.

I am pleased, and I want to thank each of you and the thousands of people in the volunteer organizations which you represent, because we have done this by involving a lot of different people.

Let me also say that we are having an impact that is going beyond the World Bank, as you suggest in your testimony. I have been asking a series of environmental questions regarding policies of all the different multilateral development banks and related organizations during hearings on their fiscal year 1987 appropriations requests. I was particularly pleased that the president of the African Development Foundation was at the movie yesterday as a result of the conversation that we had during a hearing here a week ago. It is not just the World Bank.

We are right now working with the African Development Bank, the Asian Development Bank, the African Development Foundation, and other groups. You pointed out that, in part due to the work that we have done in the last year, the Inter-American Development Bank seems to have a system that we might even begin to show as a model to these other groups in terms of the way that this can be done, with balance and reasonableness, and not huge additional costs.

I am pleased that we are able to have made the progress that we are making.

As I believe all of you know, on May 1, we are having a hearing of the Foreign Operations Subcommittee for the express purpose of dealing with this set of issues. Frankly, we have been working on point No. 1 in your testimony, Bruce, to get the other donors, and also the borrowers, involved in this overall process.

I am also pleased with the fact that more and more people in the outside world seem to be recognizing what we are all doing here, and we are getting a little more attention focused on these issues.

I wanted to ask each of you the same question: We are going to have the May 1 hearing, but I want to get an evaluation from each of you as to, really, how much procress we are making?

PROGRESS OVER LAST 2 YEARS

Can we measure the progress that we have made from 2 years ago, and from last year to this year?

Do you sense that these institutions are, in fact, trying to make changes, that they are listening to us, and that they are endeavoring to make these necessary changes?

I am not asking for a grade, if you want to give them a B or an A, but how would you characterize the changes that we have been able to make over the past year or two.

Larry, why don't you go ahead.

Mr. WILLIAMS. Let me amplify what you have already said, and that is, the Inter-American Development Bank has at least an Environmental Review Committee started. It is not spectacular, but it is a start, and it is a recognition by the bank that something needs to be done.

Something else that has come up at the Inter-American Development Bank, and that is, they are asking our advice for an outside consultant. They want to hire a consultant to go to South America and look at eight or nine of their projects, and provide a report to the bank as to the environmental impacts these projects have had. I think that this is a very positive thing for the bank to do.

If they get a consultant that has credibility with those who have been most critical of the bank's projects' environmental impacts, then that could be very revealing to all of us just as to how much impact these projects are having, whether negative or positive.

Senator D'AMATO. Mr. Chairman, if I may, at this time, ask permission to submit a statement for the record as if read in its entirety.

Senator KASTEN. Without objection.

[The statement of Senator D'Amato follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Mr. Chairman, I want to thank you for holding this hearing today to allow outside witnesses to share their expertise with this committee.

Many of the programs sponsored by the Agency for International Development and the State Department depend greatly upon the help of the interest groups and the private and voluntary organizations [PVO's]. Our foreign aid program needs the assistance of these groups to help us make rational decisions on where to provide our aid.

I expect the importance of such groups to grow in fiscal year 1987. Since budget limitations will force reductions in many important programs, to keep these programs effective will require the close cooperation of the administration, Congress, and the PVO's. Not only will private contributions have to increase for some of the programs now supported by AID, but the private organizations will have to contribute to the difficult decisions that will be necessary to make.

Many popular domestic programs have been scheduled for reductions and eliminations under the President's request. Although I am supportive of the foreign aid program, it will be difficult to spare it from equitable budget reductions. It will take the participation of the private and voluntary organizations to ensure that the programs are

not emasculated. Much more effort must be made to make the foreign aid programs as efficient and effective as possible. Toward this end, the PVO's can be invaluable players.

Mr. Chairman, keeping our foreign aid program viable and effective while reducing the President's request is indeed a challenge. I commend the able work you have done as chairman of this committee toward this goal. I look forward to doing all that I can to help you, and I look forward to working with the private and voluntary organizations during this fiscal year.

Thank you, Mr. Chairman.

SUPPORT FOR HEARINGS ON WORLD BANK PROJECTS

Senator D'AMATO. Let me say to my friend from the Sierra Club, to the Environmental Policy Institute, and to Mr. Rich on behalf of the Environmental Defense Fund, that having been a Senator from New York who pushed for the construction of West-Way, I believe we may have had some disagreements in the past. [Laughter.]

Having said that, let me commend the gentlemen and the organizations that they represent. Let me also take time out, if I might, Mr. Chairman, to say that you deserve accolades for undertaking this area of activity, one that has been neglected, and one that we have a very special responsibility to undertake.

Unfortunately, while many of the international projects which I have reviewed are initiated to achieve some beneficial purpose, all too often the consequences of such projects are devastating to the environment. This is particularly true in the case of the World Bank-financed Polonoroeste project. Our zeal to help turns into a picture of destruction.

It wasn't until you, Mr. Chairman, held those initial hearings on this matter that I—and even many people in this Nation and throughout the world—had any idea of the destruction that was taking place with respect to our forests, to our lands, and to the ability of many diverse peoples to support themselves. Eventually, this will pose a real problem for those who do have, those who are not lacking of life's necessities but who are blessed with great abundance and ideal climates.

Mr. Chairman, let me say to you, I stand ready to work with you in any way possible to aid you and those testifying on this most important area. It is an area that truthfully we have not paid enough attention to, and were it not for your leadership, we would not be here today talking about the kinds of improvements that have begun to be made.

I want to commend you. We are indebted to you. This is not just a concern for our Nation, but mankind really owes you a debt of gratitude for your personal interest in this matter.

Gentlemen, although we may have had our disputes, and we may have disagreed on West-Way, that battle is over. We certainly agree on the issues that you are testifying about today. I would like to put that in the record before I leave.

Senator KASTEN. Thank you for your comments, Senator, and your comments will be made part of the record, as well as to the statement you referred to. I just want to thank you very much for your help and support. We have had near unanimous support of the subcommittee's

efforts from the members of the subcommittee. I think that it is the clear support that we have had on the subcommittee that has enabled us to be successful with the legislation.

PROGRESS OVER PAST 2 YEARS

Let me go back and ask Mr. Rich to comment on what kind of progress you think we are making, and how we can look to that progress over the past couple of years.

Mr. RICH. Mr. Chairman, I would like to say that although sometimes the superficial signs of progress can appear slow, nevertheless, just in the past 2 years of the involvement of this subcommittee and you personally, it has made a tremendous difference. I think that the example of the Inter-American Development Bank is a very pertinent one, not only are they instituting real procedures, which could change their whole approach to reviewing and preparing projects, which are just first steps, but they are very promising, but they have also over the past year insisted, in several projects, on conditions that are environmentally much more sound.

ROAD PROJECT IN ACRE

This road project in the State of Acre, adjacent to the Polonoroeste area, after the U.S. Executive Director abstained on that one in January 1985 for environmental reasons, the Inter-American Bank has not disbursed a single cent on that loan in 16 months, insisting that a strict environmental protection plan be drawn up for the road construction and settlement that would go on in that State in Brazil.

So this is an area that can be protected, or developed in a more sustainable fashion.

Another area where the Inter-American Bank has taken a stand, I understand over the past year, they have actually refused to fund another road area in the Amazon, another road project which would have had some of the devastating impacts that the Polonoroeste Road project had.

The Inter-American Development Bank is making progress. In the Polonoroeste Project, the World Bank has related measures to try to mitigate the adverse environmental impacts of that project, but I would have to say, for the World Bank in particular, there is a lot more progress to be made. Unfortunately, I don't think that the senior management in some cases has really gotten the message completely that this is a very serious issue, or that it should be a higher priority, whereas I think in the InterAmerican Bank they have gotten that message.

Senator KASTEN. Brent, do you have a brief comment on the same question?

Mr. BLACKWELDER. Just a brief comment that I think we have made progress, and the real proof will be whether we see a different kind of project emerging from the banks in each sector—the agricultural sector, the energy sector, and so on.

I would make the additional point that we are not trying to impose hardships on the banks. We are holding out much more cost effective

investments in contrast to some of the boondoggles that have had disastrous economic, as well as social consequences. We are offering them investments that pay back within a year, that offer real opportunities to improve the quality of life, to improve people's health. So we are actually offering them a better deal from strictly a banker's standpoint. Will they take it up, that is the real test, what is going to come of their projects.

Senator KASTEN. Thank you. At this point, I think that the whole idea of short-term versus long-term applies also to short-term versus long-term economic gain for the country involved. In the cattle project that we have seen in the movie, there may be some very short-term profit, but what is happening to economic development and profitability will be detrimental over even a period of 5 or 10 years, let alone 25, 50, or 100 years. So the long-term profitability, the long-term economic development of these lands also depends on some kind of reasonableness and balance as we approach the environmental aspects of these policies.

Let me thank all of you. We look forward to working together. Thank you for appearing before the subcommittee. We will try to continue to make some progress.

Let me say that I do intend to meet with Barber Conable on this subject. He and I served together in the House. I look forward to working with him on this issue, and to continue our strong influence with the new administration of the World Bank.

Thank you all very much.

Mr. RICH. Thank you very much.

Senator KASTEN. Our next witness is Mr. Charles Dean appearing on behalf of the U.S. Overseas Cooperative Development Committee.

Mr. Dean is the president of the Cooperative Housing Foundation, and will be speaking on behalf of the U.S. Overseas Cooperative Development Committee.

Mr. Dean, we welcome you.

U.S. OVERSEAS COOPERATIVE DEVELOPMENT COMMITTEE

STATEMENT OF CHARLES F. DEAN ON BEHALF OF U.S. OVERSEAS COOPERATIVE DEVELOPMENT COMMITTEE

ACCOMPANIED BY TED WEIHE, EXECUTIVE DIRECTOR

COMMITTEE INTEREST IN INTERNATIONAL DEVELOPMENT

Mr. DEAN. Thank you, Mr. Chairman.

I would like to introduce Ted Weihe, the executive director of OCDC, who will be providing some backstopping for me.

In addition to our main statement, which is entitled "A Private Sector Cooperative Delivery System for U.S. Foreign Assistance," we have a supplementary statement on the Housing Guaranty Program, which we would like to submit for the record, and not take time on it today, if that is possible.

Senator KASTEN. Without objection, the statement will be included in the record.

Mr. DEAN. Thank you.

The Overseas Cooperative Development Committee has testified before your subcommittee in the past. We represent 19 of the largest U.S. cooperative organizations. They have a wide range of services, and they claim some 85 million members throughout the United States, and the organizations are listed on our letterhead, but I would like to just mention a couple—the National Council of Farmer Cooperatives; the National Rural Electric Cooperative Association; the World Council of Credit Unions in Madison, WI; the Farm Credit Services of St. Paul in Stratford, WI; CARE; Land O'Lakes, and Lakes O'Lakes, I think, is the cheese organization up in Wisconsin; and CENEX out in Washington State.

They all have a common interest in international development, and that is basically to work more in the private sector with cooperatives that are community based, and democratically controlled, in contrast to the so-called cooperatives that are often sponsored by government agencies in developing countries.

The main point in our testimony is that we know that there will be reductions on the requested level of $6 billion for economic assistance this year, and we think that if certain changes are made in the way that aid is channeled, money can be saved. We are hopeful that even at reduced levels, more can be done with whatever money is left.

I would like to call your attention to the fact that last year, the Congress passed an amendment, called the Danforth-Gilman amendment, which basically deals with the way AID channels its funds.

Historically, AID has channeled most of its money through the public sector. If they are trying to reach low income people, they put the money through the government, the Minister of Agriculture, and it works its way down. It may go through a cooperative or other private group before it reaches the low-income people that it is intended for, but it takes too long, and these Government operations are not that efficient.

This amendment requested that AID report to the Congress this September and provide an estimate to the Congress on how much aid is channeled through the private sector, and how much is channeled through government agencies.

The preliminary estimates are that about 75 percent of all aid is currently channeled through government organizations, 25 percent through the private sector. That is an improvement over what it was a few years back when it was probably 90-some percent.

Senator KASTEN. Let me say that this is, in part, because we, on this side of the table, agree strongly with what you have just said, and have been actively encouraging this kind of effort.

As you heard in the testimony of the representatives of Georgetown University, we took out that middle-man bureaucracy in that case, and we are doing that as often as we can. We are also trying to encourage

the private sector effort. Throughout the hearings in the last month or two, this is the one point that has been consistent in the questions as we go back and forth. So we agree with your statement.

Mr. DEAN. Thank you, Mr. Chairman. We are aware of your interest in the private sector participation and channeling of the AID programs, and it is clear that what you have done to support it has helped.

I would like to summarize by going to this chart. It will not take long, and I will not go through it in detail. The chart is included as an attachment. Basically, it just illustrates what I was saying, that the typical channel for AID funds is to the right, going down through these government agencies. The area in the middle is an income distribution chart for a typical developing country, with the urban population on the right-hand side, this line indicating the median income level, rural population on the left with the median income naturally lower.

What we are illustrating here is that there are basically three alternate channels that AID can take in trying to get down to low income people, either in urban or rural areas. This has been the traditional channel. As we said, less and less of the aid is flowing this way, and more and more is flowing this way.

One of the dilemmas is that if you are trying to reach poor people with foreign assistance programs, it is hard to channel it through formal financial institutions. A quick example, in my field of housing, the savings and loans organizations overseas in the developing countries don't work below the median income level, with one exception in Peru, where they are. Generally, they are up here, so if you want to get down here, you have other options.

There are informal profitmaking businesses in all of the squatter settlements and the villages, and AID and international agencies are finding a way to work through those agencies. Obviously, we think that the cooperatives offer a real opportunity to do more in that area. The second attachment to our testimony gives eight examples of how cooperatives are getting more for each aid dollar spent when money is channeled that way.

In summary, our recommendation is that we want to see an increasing amount of aid being channeled in that way rather than to the government, and we think that this will result in more efficient use of every tax dollar spent for foreign aid. Thank you.

[The prepared statement of Mr. Dean follows:]

A PRIVATE SECTOR COOPERATIVE DELIVERY SYSTEM FOR US FOREIGN ASSISTANCE

STATEMENT BY CHARLES F. DEAN
PRESIDENT, COOPERATIVE HOUSING FOUNDATION (CHF)
ON BEHALF OF THE
OVERSEAS COOPERATIVE DEVELOPMENT COMMITTEE (OCDC)

Mr. Chairman, first I want to thank you on behalf of OCDC for giving us this time to share our views with you on the US Foreign Assistance Program. We presented testimony before your Subcommittee last year. You may recall that the OCDC is made up of 19 US cooperative organizations involved in overseas cooperative development. They are listed on our letterhead and together they serve more than 85 million Americans.

The main point that we would like to make in our testimony today is that we are in favor of the Administration's request for funding at the freeze level of about $6 billion for the economic assistance program. However, if reductions are going to be made, we have some ideas on how US foreign assistance can help more people, even at reduced levels.

1. CHANNEL MORE AID THROUGH THE PRIVATE SECTOR

   We believe reductions should come from the public sector programs rather than the more efficient and effective private sector AID programs.

   Last year Congress passed the Danforth-Gilman Amendment which mandates a study from AID on the amount of US foreign assistance which is actually channeled through the private sector compared to that channeled through government agencies in developing countries. The report is due this September. However, preliminary information indicates that approximately 75 percent of all AID funds are channeled through public sector government agencies with only 25 percent flowing through the private sector.

We recognize the difficulties in channeling money through the private sector. In some countries, the government agencies are all pervasive, and it is practically impossible to channel funds in any way except through government agencies. However, in other countries there are opportunities to channel funds through the private sector, or at least to greatly minimize the role of local public sector agencies in implementing projects.

In most developing countries, there is an assumption that problems of the poor must be solved by the government. This same attitude is common among officials of the World Bank and the United Nations. In the past, it was also common within AID.

We have testified for a number of years in favor of channeling more aid through the private sector. We are especially pleased with the recent progress by the Administration and the Congressional interest to increase private sector AID programs. We believe this action is long overdue. It has always seemed strange to us that a country which is based on private free enterprise should channel so much of its aid into the public sector agencies in Africa, Asia and Latin America.

The government bureaucracies in developing countries continue to grow in spite of chronic problems, while truly productive private sector entities have difficulty obtaining credit and much-needed technical help. Channeling more AID through the private sector will produce more efficient programs which reach lower income levels and will result in greater numbers of people benefiting from each AID dollar spent.

2. LACK OF ABSORPTIVE CAPACITY IN PUBLIC SECTOR

Another reason why we need to try harder to work with the

private sector is that many government agencies in the developing countries simply don't have the absorptive capacity to receive large loans from international agencies, such as AID and the World Bank, and to use these funds efficiently to help the poor. It is common to find past loans and grants from international agenices backed up in the pipeline of the public sector agencies around the world. This is a chronic problem which has been recognized for more than 20 years by people working in development.

There is often confusion in the minds of the public between the need for foreign assistance funds and the ability of countries to absorb funds. The African famine relief efforts provide a dramatic example of the public and private outpouring of funds, yet an inability by host governments and development agencies to implement projects that offer a quick solution to intractable problems of hunger and poverty.

There are also examples where this lack of absorptive capacity is an obstacle in providing assistance which is needed to support US foreign policy objectives in certain countries. The Kissinger Commission on Central America recognized this problem and recommended that more AID be channeled through private organizations to increase this absorptive capacity of that region. Part of the answer to this problem is to strengthen local private sector organizations which work with the poor to increase the overall absorptive capacity. This will lead to more efficient use of whatever US funds are available for assistance.

3. THE DILEMMA WITH PRIVATE SECTOR FOREIGN AID

Under the direction of M. Peter McPherson, AID has greatly increased its private sector programs. They established the

Private Enterprise Bureau (PRE) and are beginning to increase the percentage of aid which is channeled through the private sector. They are far ahead of the multi-lateral programs of the World Bank, most Regional Development Banks, and the United Nations, which still channel almost all of their funds through government agencies.

Nevertheless, AID does face a dilemma in trying to reach poor people through the private sector as illustrated on the attached chart. The income distribution pattern shown on the chart is typical of most developing countries. The profit making private sector generally provides goods and services for upper income people near the top, and it is expected that the public sector will help the people at the bottom. As a result, AID funds have historically flowed through these public sector agencies to help poor farmers and provide services for the urban poor.

The current dilemma is that AID wants to help the poor through the private sector, and there are not enough strong private sector local institutions which can receive AID funds and use them effectively. There is also a natural resistance by many national governments who don't want to lose political control over the AID funds.

However, in many countries there are cooperative and other private sector organizations working at the lower income levels, and AID is increasing its support for these groups. There is also an "informal," profit-oriented private sector which operates in the squatter settlements and rural villages which is often not considered part of the economy. Nevertheless, thousands of small businessmen carry out a wide range of activities providing everything from bananas at a fruit stand to a small contractor building simple houses in the squatter settlements. AID and other

international agencies are now discovering this informal private sector, and they are beginning to find ways to support its expansion.

These private organizations are performing functions that are in demand by society and, until now, have normally been considered functions of the state. The general frustration with the government's inability to provide these services have led to the establishment of more and more non-governmental organizations. In recent years, some international organizations have found ways to channel funds through these groups. Excellent examples are the newly-established African Development Foundation (ADF) and the Inter-American Foundation (IAF). The IAF has been working quietly throughout the Western Hemisphere providing funding for a wide range of private organizations who have one thing in common - they work for social change along with economic development. Many European organizations, such as Oxfam from Britain, and Misereor from Germany, also channel their funding through these private groups.

An excellent example for US cooperatives is the recent $10 million grant by AID to the Cooperative Housing Foundation (CHF) for shelter improvement and jobs in six countries of Central America. CHF will directly reach 100,000 poor people by packaging hundreds of small projects implemented entirely through the private sector.

A recent book on Latin America, titled Getting Ahead Collectively, by Albert Hirschman, describes these grassroots private organizations in some detail. He states that "The mainspring of these private initiatives is not the 'conscience of the educated and the rich' as was the case in Western Europe and North America before the advent of the contemporary Welfare State, but a combination of social

activism at the local and national levels, inspired by a great variety of ideologies, with the conscience of some of the rich countries at the international level."

These private organizations are also having a strong political effect. Their collective action at the grassroots is normally in a very democratically-organized system, especially among the cooperatives. The grassroots organizations flourish in countries where politics are more pluralistic, such as Columbia, Peru and the Dominican Republic. Conversely, they have more difficulty working under repressive governments such as those in Chile and Nicaragua.

4. A PRIVATE-SECTOR COOPERATIVE DELIVERY SYSTEM

US Cooperative Development Organizations (CDOs) are helping to establish a private sector delivery system for US foreign assistance. Although their main goal has always been to mobilze local financial and human resources, they have helped to establish efficient private sector organizations in many developing countries which are capable of receiving loans and other forms of external assistance and using them effectively to help low income people. These include non-profit cooperative federations as well as cooperative-type trade associations which help small, profit-making businesses and farmers.

In order to further strengthen these private groups, there is a need for credit in the range of $100,000 to $1.0 million. The problem is that these amounts are too small for AID to consider as individual loans, and it is simply not efficient for AID to process and administer large numbers of small loans of this type. Cooperative systems supported by American CDOs can help "package" such programs and then provide technical assistance and monitoring to help in the delivery of such US foreign assistance funds.

5. EXAMPLES OF PRIVATE SECTOR COOPERATIVE PROGRAMS

Attachment #2 provides nine examples where US cooperative organizations have helped to provide private sector channels for AID funds to reach the poor people in developing countries. We have numerous reports which provide more details on these examples and thousands more. However, the best way to learn about these programs is to see them first hand. We hope you and your Committee members will visit these types of private sector projects when you travel.

Thank you.

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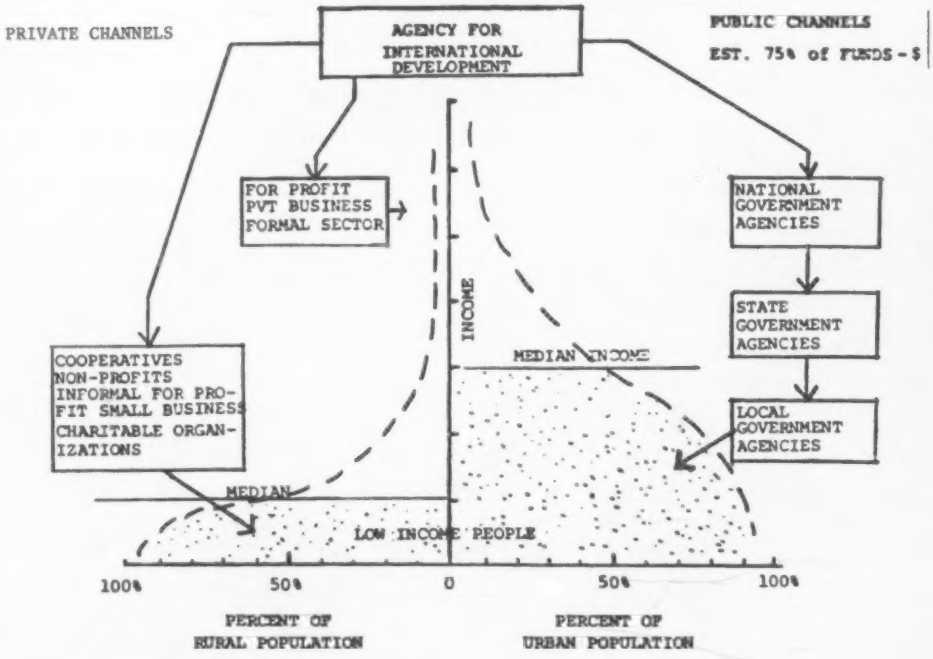
ATTACHMENT #1

ALTERNATE CHANNELS FOR REACHING THE POOR WITH US FOREIGN ASSISTANCE



PRIVATE CHANNELS

ADVANTAGES

- Shows US concern for people but not US support for unpopular government
- Commitment to working with poor (except for-profit formal businesses)
- Lower costs/more efficient delivery system
- More democratic participation
- More people benefit per AID dollar spent

DISADVANTAGES

- Formal for-profit businesses lack economic incentives to work with poor
- Coops and non-profits need subsidies to work with high-risk projects of very poor
- Difficult for AID to process and monitor many small projects

PUBLIC CHANNELS

ADVANTAGES

- Shows US support for governments friendly to US
- Large-scale "macro"-level projects are easier to manage
- Policy reform potential
- Supports needed government infrastructure and services such as education and public health and research

DISADVANTAGES

- Lack of absorptive capacity
- Red tape
- Slow implementation
- Rapid turnover of staff
- Low salaries and low skilled people
- Financial and political corruption

ATTACHMENT #2

Examples of Private Sector Cooperative Programs in Developing Countries

1. Agricultural Cooperative Development International (ACDI)

A project in Tonga in the South Pacific, undertaken by ACDI, is helping to rebuild the cooperative federation. Previously, the only commercial activity of the federation was vanilla marketing. The federation had losses of $63,000 and a capital deficit of $33,000 when the ACDI project began in 1981. Through technical assistance and the provision of a US manager, the federation has been strengthened and new economic activities undertaken. The cooperative became a truly private sector organization in contrast to the usually paternalist government-sponsored organizations common in these island states.

The US technical assistance resulted in expanding the cooperative's activity in the wholesaling of goods to members which increased from sales of $20,000 in 1981 to $3.6 million in 1985. The net savings of the cooperative, before patronage dividends, went from $10,000 to $112,000 for the same four year period. Thus, a self-sustaining business has been built which is now being run entirely by the Tonga Board of Directors and management. The cooperative is benefiting 250,000 island residents and businesses. In addition, new activities for agriculture and fishing have been started. A new cooperative, the Friendly Islands Marketing Cooperative, has been formed which is now receiving AID assistance and ACDI technical help to market handicrafts, fish freezing and marketing, and vanilla processing and marketing.

2. Cooperative Housing Foundation (CHF)

In Central America, CHF is completing the first year of a unique new program to help provide shelter, community services and employment to poor people in urban squatter settlements and rural villages. CHF is serving as a private sector channel for a $10 million AID grant which CHF in turn is using to create permanent revolving loan funds in six Central American countries: Guatemala, Honduras, El Salvador, Costa Rica, Belize and Panama. Loans are being made to private sector, non-profit organizations such as credit cooperative federations, housing cooperative organizations and private development groups working with shelter, community services or employment-generating programs. The objective is to use the AID grant funds to "leverage" local resources and also to provide an alternate private sector channel for external funds.

The program has the support of national governments in each country and of USAID Missions. Project selection, development and implementation is the responsibility of CHF and local, private sector organizations. The program is moving very quickly and more than $3.3 million of loans have been approved during the last few months. Commitments for local cash contributions of over $1.3 million have been obtained and in kind contributions of land, labor and materials total more than $2 million.

Projects have been identified and funds disbursed in a very short period of time. In El Salvador, for example, CHF has identified a number of small projects for very low income people in small towns outside of the capital. The projects include 350 home improvement loans, which average approximately $600 per loan, through the National Federation of Credit Unions (FEDECACES). The loans allow expansion of existing housing often providing space for relatives who

have been displaced by the fighting. The entire $500,000 allocated by CHF for El Salvador has now been committed, and the USAID Mission and other local sources have now agreed to provide additional funds based on the success and short time frame for the initial projects.

Similar projects are underway in the squatter settlements and rural areas of the other five countries, all through local private sector organizations. The 25 projects identified and approved to date will directly benefit more than 27,000 people with the $3.3 million of AID grant funds committed to date. This is clearly an example of the efficiency of a private sector approach which benefits many more people for each dollar spent and, at the same time, reaches a lower income group than is often the case.

3. Cooperative for American Relief Everywhere (CARE)

In Kenya, CARE is working with rural women's cooperatives to increase incomes and improve living conditions through upgrading goat production, including the introduction of cross-breeding pure and native stocks. CARE provides marketing support for goat production as well as help in planting fodder crops and training women in small business management.

The Food and Agriculture Organization of the United Nations (FAO) and an international research center assist the project in the application of their research on appropriate fodders. The Ministry of Agriculture and Livestock provides seeds, seedlings, and offers extension education for fodder production. Technical management training is being provided by another US PVO, Technoserve, which has specialized over the years in assisting small farmer organizations, micro-business groups, and cooperatives.

The Kenya project is coordinated with a local non-

governmental women's organization, Maendeleo Ya Wanawake, for assessing project needs and in group selection. The project reaches 134 cooperatives with over 4,0000 rural women.

CARE's approach to this project demonstrates the catalytic role of PVOs to bring together international agencies, government ministries and non-governmental national and local organizations into an integrated program for working with the poor.

In two other African countries, Comoros and Congo, CARE's integrated programming and presence acts as a substitute for an AID office which, because of US government personnel and operations budget reductions, cannot be economically maintained in these small, but poor, countries.

4. Cooperative Insurance

In most developing countries, insurance is controlled through a government monopoly or large private companies which serve only the upper income public. In contrast, cooperative insurance - often operated through credit union and cooperative federations - provides a non-governmental way to reach lower income people. League Insurance Companies, CUNA Mutual Insurance Group, MSI Insurance Group of St. Paul, Nationwide Insurance Group, and two insurance cooperatives of Puerto Rico are providing training and technical assistance to build financially-viable and self-sustaining cooperative insurance companies in Latin America and the Caribbean. Most of the resources for the program are provided by these US cooperative insurers, and AID is providing modest matching funds.

The benefits of cooperative insurance are important because they address the needs of low income people, accumulate

capital which, in turn, is used for developmental activities and protect cooperative assets and economic activities, allowing an expansion of services to cooperative members. An example of this non-governmental approach is UNACOOP in Costa Rica which provides insurance services to 40 cooperatives as well as to the coffee growers cooperative and credit union federations. It is the only non-governmental insurance agency permitted to operate in the country.

The AID-assistance through US insurance companies is attempting to demonstrate that a cooperatively-based company can be technically capable of risk assumption and administering sound insurance policies. This may lead to changes in the monopoly law under consideration in the Costa Rica Congress to permit other types of private sector insurance programs to develop. Thus, the cooperatives can open the way for private sector businesses to operate.

5. Land O'Lakes

In Jamaica, Land O'Lakes is engaged in an in-country development project which uses US surplus butter and cheese. PL 480 shipments have been provided which then are processed and packaged in Jamaica and sold on the retail market. Funds from the sale of these products form the financial base of the Jamaican Agricultural Development Foundation. This is a private non-profit foundation providing loans to small families and agri-business operations which traditional lending institutions avoid. AID development funds are essential in providing technical assistance and monitoring the shipment of US dairy surpluses. It is a model in private sector development which can be replicated in other countries to spur economic development and, at the same time, draw down large surplus US government stocks of dairy products.

6. National Cooperative Business Association (NCBA)

The NCBA has sponsored a large and very successful program which reaches over two million small dairy (buffalo) farmers in India. The project operates through the non-governmental National Dairy Development Board which has used the sale of 20,000 metric tons in excess US dairy commodities to help set up more than 10,000 dairy cooperatives. The US dry milk is provided during the winter months when domestic production slackens. The cooperatives can maintain an uninterrupted supply of milk to India's four major cities with a combined market of over 25 million consumers.

Due to the success of this program, a similar project, using surplus US soybean oil, is helping to create a cooperative oilseed sector which, today, is composed of 200,000 small producers. This project, with modest AID development funds for technical assistance and monitoring, along with excess US farm commodities, has broken the oilseed monopoly which was formerly controlled by 12 large Indian families and has lowered the price of vegetable oil to the Indian market. Through non-governmental channels, it reaches large numbers of small farmers in a private sector, self-help approach.

7. National Rural Electric Cooperative Association (NRECA)

In 1963, the NRECA undertook an AID-financed feasibility study for a rural electric project in Santa Cruz, Bolivia. The project resulted in the creation of Cooperativa Rural de Electrificacion, one of the largest cooperatives in South America which today serves 750,000 members. From the beginning, a sister-to-sister relationship was established with the Blue Ridge Electric Membership Corporation, located in the Appalachia region of North Carolina. Blue Ridge's history of development in a poor region parallels the Bolivian rural electric experience.

Over the years, 23 technical assistance missions have been sent to Bolivia from Blue Ridge at the cooperative's own expense. The Appalachian cooperative has received 18 training visits of board and staff from the Bolivian electric cooperative. This type of people-to-people assistance is not only effective, but brings foreign visitors to the remote town of Lenoir giving its citizens a window to the developing world.

The Santa Cruz electric cooperative was so successful in providing electric service that other cooperatives were formed for potable water, sewerage and telephone service. The municipal government recently tried to take over the cooperatives who resisted by lobbying the Bolivian Congress to change the take-over law. Unlike the municipality, which held its first election in over 40 years, the cooperatives conduct annual elections. They are governed by a voluntary board of directors elected by one vote per member. Thus, these cooperatives demonstrate both a non-governmental approach to economic development and provide an honest experience in democracy.

8. Volunteers in Overseas Cooperative Development (VOCA)

Through the help of a highly qualified cooperative volunteer, the government of Zimbabwe and AID recently provided a grant of $240,000 to the private Farmers Co-Op, composed of 4,000 "European" farmers, for the provision of technical assistance to 850,000 black farmers through their 568 farm supply and marketing cooperatives. It is a breakthrough in white and black relationships in a fragile political environment where most agricultural production continues to be controlled by large European farmers. Meanwhile, Zimbabweans, many of whom are ex-combatants, are trying to gain the rewards of their revolution through cooperatively-based economic development.

The project came about as a result of a study by Roy Wiebe. Under the auspices of VOCA, Mr. Wiebe, a former president of the Western State Farmers Association, Seattle, Washington, undertook an analysis of the warehouse system for agricultural supplies and inputs of the small farmer cooperatives. AID had assisted in the construction of the warehouses, but they were not operating properly due to a lack of technical assistance and training. Working quietly with the successful European cooperatives, Wiebe guided the proposal for collaboration of the two cooperative federations through the political thickets. His prestige and experience as a US-cooperative CEO made the project possible. The project demonstrates the catalytic role that volunteers can play in bringing about significant government-sponsored programs, in this case, through the use of a private cooperative organization rather than a government ministry.

9. World Council of Credit Unions (WOCCU)

Credit unions are private sector cooperatives which mobilize savings and provide credit to members for provident and productive purposes. They are often the only financial institution available to low and moderate income people which the commercial banks do not reach. They are democratically controlled by their members. For example, in Lesotho, credit unions are one of only two national institutions which reach 80 percent of the population who live in rural areas. Seventy-five percent of the cooperative members are women - the mainstay of Lesotho's agricultural economy.

Banking institutions are unknown in rural areas and the credit unions are overcoming the vexing reality of substantial non-payment on agricultural credit loans. Because the tribal society is closely knit and treat one

another as relatives, it is hard for a creditor to collect loans, especially when there has been a poor harvest.

This AID-assisted project directly reaches low income people through non-governmental channels. It is supported by a worldwide credit union system. Technical help is provided by the African Cooperative Savings and Credit Association, an African-wide confederation, and the World Council of Credit Unions. Credit unions provide an alternative funding approach to the usual top down government lending. Self-reliance, through savings and the collection of outstanding loans, are more evident because members own their financial institution rather than receive credit from an impersonal government bank.

STATEMENT IN SUPPORT OF AID's
HOUSING GUARANTY PROGRAM
BY CHARLES F. DEAN, CHAIRMAN
LEGISLATIVE SUBCOMMITTEE
OVERSEAS COOPERATIVE DEVELOPMENT COMMITTEE (OCDC)
PRESIDENT, COOPERATIVE HOUSING FOUNDATION (CHF)

Last year, I testified on behalf of the Overseas Cooperative Development Committee (OCDC) before both Senate and House Subcommittees in support of the AID Housing Guaranty Program. It provides opportunties for home ownership to low income people in developing countries around the world using non-appropriated funds from private US lenders. The loans are guaranteed by the US Government through AID. During the past 20 years, the program has been largely self-supporting. Loans from private lenders under this program have totaled more than $1.0 billion, and the cost to US taxpayers has been approximately $30 million in appropriated funds.

The Administration has once more proposed to terminate this important program based on the supposedly adverse affect which it has on the US credit market and the assumption that other sources of funding can be found.

Both the House and Senate passed legislation last year which rejected termination and, instead, continued the program at the level of $152 million. This was an indication of the strong bipartisan support that the program has had for more than 20 years. The effort to kill the program stems from the OMB and centers around an argument that all federal guarantees should be reduced or eliminated. In fact, this program has no measurable adverse effect on the US credit market and is one of the best bargains that the US taxpayers have in the whole US foreign assistance program.

In recent years, the program has contributed to US foreign policy goals in such politically-sensitive countries as Panama, Portugal, El Salvador, Honduras, Morocco, Korea, and other places where the US seeks to demonstrate its concern for the basic needs of low income people.

One of the reasons given by the Administration for terminating the program is the "inability of the program to remain self-sustaining, combined with the increasing ability of the regular and economic assistance program to support sound urban shelter programs in developing countries."

The program is largely self-sustaining from loans by private lenders with the exception of the appropriated funds for the reserve which, as noted above, have totaled about $30 million during its 20 years of operation. The second reason for the proposed termination is based upon the availability of other funds for urban shelter programs. The only other funds which have been mentioned are appropriated funds such as Development

Assistance (DA), Economic Support Funds (ESF), and PL480. It does not make sense to replace private sector, non-appropriated Housing Guaranty funds with appropriated funds, especially now when cuts must be made in the overall AID budget.

The Housing Guaranty funds can actually help many developing countries in their efforts to meet their external debt commitments. The hard currency loaned by US investors is available at very favorable terms, up to 30 years, and with grace periods on interest payments of five years. Interest rates are just above the US mortgage market. Houses constructed under the program are almost exclusively of local materials purchased with local currency. The result is that the central banks have more hard currency available to help reduce external debt or to purchase much needed spare parts, fuel or medical supplies.

There is a liquidity problem with the program's reserve fund which is partly due to rescheduling of debt by certain countries and partly due to other claims. The Administration has requested $10 million for FY 87 to supplement $40 million which was provided for the reserve fund in FY 85. Claims against the fund are contractual obligations of the US and must be paid. It may be necessary to provide additional funds during the next few years if the debt crisis continues in many countries. However, the relatively small amounts of appropriated funds for reserves are the key to "leveraging" the large loans from the US private sector for this important program.

In summary, the OCDC and CHF strongly support continuation of the program until a better way of providing assistance in this area is identified. This program directly benefits very poor people in the squatter settlements and rural villages and provides visual evidence of American concern. The projects are based on the concept of self-help and full cost recovery. It is particularly important in the countries of Central America,

Africa and Asia where it complements America's strategic interests by promoting social and economic progress and political stability.

The interrelationship of American social and economic aid with the foreign policy goals of the US was noted in the reports of the Kissinger Commission on Central America and the Carlucci Commission. I don't know of a better way to fight Communism in developing countries than by providing opportunities for home ownership and jobs. The Housing Guaranty Program does this efficiently and at a minimum cost to the US taxpayer and should be continued.

PROGRAM SUPPORT

Senator KASTEN. We thank you for what you are doing, and for the organizations that you represent. We have had a good working relationship over the years. Occasionally, we have had Wisconsin representatives of your organization testify before this committee, which is a special pleasure to me, and I am pleased to have the opportunity to work with you.

I am hopeful that we are going to be able to continue to support these programs. As you know, in the last year in particular, the Senate was relatively higher in these programs than the House was, and once more it became a subject of negotiation. I am hopeful as I told one of the agriculture groups appearing with you, to the degree that we can keep those numbers up over there, it means that we don't have to negotiate, and we can reach the goals that you outlined.

We share your goals, and I am pleased to be working with the people back home, and also with people like Bob Berglan and others here toward the goals that you outline. I am also interested in your chart. I thank you for your testimony, and we look forward to working with you.

DAIRY PROVISION

Mr. DEAN. I wanted to mention two special interests to the committee. One was a dairy provision that was going slowly until the administration came up, and now it is moving rapidly. Land O'Lakes and CARE are involved in putting together some projects.

Second, there has been no progress whatsoever in energy programs. Energy programs now are down to $26 million, and you had suggested a target level of $50 million. I heard the other day that they were cutting back most of the energy staff out of Africa. So that trend is still precipitously down, and I am worried.

We appreciate the support of the committee on maintaining some minimal level of energy. This is not a self-interest thing, it is simply a belief that you have to have some significant energy programs within AID, if you are going to deal with agricultural issues.

Senator KASTEN. I think the hearing date had something to do with the progress on the $5 million for dairy products. We will definitely follow up with the directions enumerated by the committee report on energy programs.

We thank you both for your testimony.

Our next witness is Mr. Waters. Greetings from Wisconsin. It is nice to see you here again today.

RESULTS

STATEMENT OF JACK A. WATERS, RESULTS

PRIMARY HEALTH CARE PROGRAMS

Mr. WATERS. Thank you.

To begin, I would like to, first of all, thank you, Senator, for the work that you have done in providing primary health care programs in the developing world. Given the constraint that you need to work under, you have done it. I want to graciously thank you for everything that you have done as far as maintaining the levels in UNICEF, maintaining the levels in the Child Survival Fund, and in the Agency for International Development's Health account.

WORLDWIDE HUNGER

I respectfully submit the following testimony. My purpose today is to speak to you and this committee about the impact that you can have in creating a world free from malnutrition and infection; to speak to you about the opportunities of ending hunger. The opportunity exists today not only to save lives, but to achieve one of the greatest goals which mankind has ever set for itself, that goal being the basic protection of the lives and the health and the normal development of all our children.

As you know, 13 to 18 million of us die each year as a result of hunger and malnutrition. Twenty-four human beings, 18 of them children, die as a consequence of hunger every minute of every hour of every day. In the time that it will take me to complete this testimony, 240 human beings will die due to hunger and malnutrition.

In recent years, a number of prestigious reports on hunger have been released. They addressed time and again the missing element in the elimination of deaths due to malnutrition and infection, that missing element being political will. The political will of all of us to get the job done.

In 1977, the National Academy of Science World Food and Nutrition study concluded that if there is the political will in this country and abroad, it should be possible to overcome the worst aspects of widespread hunger and malnutrition within one generation.

As a young boy, I heard and read of a man who had the ability to speak of his vision in a way that others could hear it and make their vision. This man was John F. Kennedy, and his vision was that of placing a man on the Moon. I wonder how many people, when they first heard of this vision, actually thought that it was attainable within one decade.

You, on this committee, are men of vision. At some time in your life, you decided that the best way that you could serve this country and make a difference was becoming a U.S. Senator. Indeed, the political process holds great possibility for making our highest visions possible.

At some point in time in your life when you made that decision to be a U.S. Senator, there were circumstances that were between you and that actual vision. You did not allow those circumstances to deter you from the attainment of your vision, rather you used those circumstances to help you achieve your goal.

The vision before us today is that of a world free from malnutrition and infection. Future generations will regard this as one of mankind's greatest achievements.

IMMUNIZATION OF CHILDREN WORLDWIDE

Imagine, if you could, a ladder, and at the top of that ladder is a world free from hunger, a world free from deaths due to malnutrition and infection. Before us today are two rungs on that ladder. The first rung is the goal of immunizing all of the world's children by 1990. The second, that of increasing food production in the poorest of the food deficit countries.

What is the opportunity of immunizing all of the world's children? Six immunizable diseases kill 3.5 million children each year. These diseases kill and cripple an additional 3.5 million. The diseases that I speak of are measles, diphtheria, pertussis, tetanus, tuberculosis, and polio. Measles alone kills 2 million children each year.

Presently, between 20 and 40 percent of the developing world's children are immunized against these diseases. The first and foremost opportunity, at this time, is to save the lives of 3.5 million children who are dying each year, and to prevent the disability of an equal number. This can be done at the cost of approximately $5 per child.

PROGRAM IN INDIA

Inspired by this information, 40 countries have already committed to immunizing their children by 1990. That is an obvious opportunity in the goal of immunization. There are other opportunities. An example of one would be India, a vision beyond political differences. In India, 1 million children die each year due to these six immunizable diseases. India has committed to immunizing all their children by 1990, and that commitment has become a living memorial to Indira Ghandi. Even Indira Ghandi's strongest opponents have joined in that goal—a vision beyond political difference.

EL SALVADOR

Another example of an opportunity is El Salvador—a day of peace, a day of life, and a day of hope. More children died in 1984 in El Salvador due to the diseases mentioned above than the total number of civilians and military war related deaths. The civil war was stopped for 3 Sundays of tranquility in 1985, during which two-thirds of the country's children were immunized. Opponents stood side by side to achieve this goal.

The campaign continues. Sunday, April 6, 1986, was the first Sunday of tranquility in the second year, a day of peace, a day of life, and a day of hope.

SMALLPOX ERADICATION

An example of a cost effectiveness would be smallpox. In 1967, smallpox killed an estimated 2 million people. The last case of smallpox was recorded in 1977. The total cost of the campaign to eradicate smallpox was $24 million a year. The United States contributed a total of $32 million toward that campaign.

Eradication allowed the United States to dismantle its elaborate quarantine and surveillance system, which had cost approximately $120 million a year. The United States now saves more every few months than its total investment in the eradication effort; an example of cost effectiveness.

Senator KASTEN. I am going to have to ask that you summarize your testimony.

Mr. WATERS. The remainder of my testimony can be summarized in a simple statement.

The state of the world's children—the last paragraph says that—the opportunity exists to achieve one of the greatest goals which mankind has ever set for itself, the basic protection of the lives and the health and the normal development of all our children.

My vision is that of my daughter, who is 16 months old now. When she is old enough to have children, her children will read the history books. What I want the history books to read is that the 1980's and 1990's was a generation to be celebrated, a generation celebrated in achieving the opportunity placed before it of protecting and maintaining the hard-won progress of the post-war years, a generation which presided over the coexistence of unprecedented financial and technical capacity, and a generation which used that capacity to eliminate death due to malnutrition and infection.

[The prepared statement of Mr. Waters follows:]

PREPARED STATEMENT OF JACK A. WATERS

THE OPPORTUNITY OF ENDING HUNGER

"If this opportunity is taken, then the years ahead could see the achievement of one of the greatest goals which mankind has ever set for itself - basic protection for the lives and the health and the normal development of all its children. If that opportunity is not taken, then the 1980s and 1990s will be rightly stigmatized as the generation which failed to protect and maintain the hard won progress of the post war years and which presided over the co-existence of unprecedented financial and technical capacity with the continued malnutrition, stunting, and death of millions of its most vulnerable citizens.

The choice is ours."

James Grant, Executive Director, UNICEF
THE STATE OF THE WORLD'S CHILDREN, 1986

I respectfully submit the following testimony to the Senate Foreign Operations Subcommittee, April 17, 1986.

WHO HAS THE POWER TO DEFEAT HUMANITY'S OLDEST AND MOST DESTRUCTIVE ENEMY?

THE PROBLEM

13 to 18 million of us die each year as a result of hunger and malnutrition. 24 human beings, 18 of them children, die as a consequence of hunger every minute of every hour of every day. In the ten minutes it may take you to read this testimony, 240 human beings will die.[1]

In recent years a number of prestigious reports on hunger have been released. They address time and again the missing element in the elimination of deaths due to malnutrition and infection: political will. In 1977, the National Academy of Science, World Food and Nutrition Study concluded, "If there is the political will in this country and abroad...it should be possible to overcome the worst aspects of widespread hunger and malnutrition within one generation." Another report, The Presidential Commission on World Hunger, concluded in 1980 that, "...the persistence of hunger reflects a lack of sufficient political will to eliminate its causes."

THE OPPORTUNITY

My purpose today is to inspire you about the impact you can have in creating a world free from malnutrition and infection; to inspire you about the opportunity of ending hunger. The opportunity exists not only to save lives, but to achieve one of the greatest goals which mankind has ever set for itself - basic protection of the lives and the health and the normal development of all its children.

As a young boy I heard and read of a man who had the ability to speak of his vision in a way that others could hear it and make it their vision. This man was John F. Kennedy, and his vision was that of placing a man on the moon. I wonder how many people, when first hearing of Kennedy's vision, thought it attainable within one decade?

You are men of vision. At some time in each of your lives you saw that the best way for you to make a difference in the world was through the political process. Indeed the political process holds great possibility for making real your highest visions.

The vision before you today is that of a world free from malnutrition and infection. Future generations will regard this as one of mankind's greatest achievements.

THE SOLUTION

Imagine a ladder. At the top of the ladder is a world free from hunger. Each rung on the ladder represents an action which must be taken in order to reach the top. Two such opportunities are now before you in Congress: immunizing all the world's children by 1990 and increasing food production in the poorest of the food deficit countries.

IMMUNIZATION

WHAT IS THE OPPORTUNITY OF IMMUNIZING ALL THE WORLD'S CHILDREN?

Six immunizable diseases kill 3.5 million children each year and disable an additional 3.5 million. The diseases are measles, diphtheria, pertussis (whooping cough), tetanus, tuberculosis and polio. Measles alone kills two million children a year. Presently only 20 to 40 percent of the developing world's children are immunized against these diseases.[2]

The first and foremost opportunity at this time is to save the lives of the 3.5 million children who are dying each year and to prevent the disability of an equal number. This can be done at a cost of approximately $5 per child. Inspired by this information, 40 countries have already committed to immunizing their children by 1990.[3]

OTHER OPPORTUNITIES OF IMMUNIZING ALL THE WORLD'S CHILDREN:

INDIA: A Vision Beyond Political Differences

In India, one million children die from immunizable diseases each year. Prime Minister Rajiv Gandhi has announced that the goal of immunizing all of India's children is to be a "living memorial" to Indira Gandhi. Even her staunchest opponents have joined in this campaign.[4]

El Salvador: "A Day of Peace, A Day of Life and a Day of Hope."

More children died in 1984 in El Salvador due to the diseases mentioned than the total number of civilian and military war-related deaths. The civil war was stopped for three Sundays of Tranquility in 1985, during which two-thirds of the country's children were immunized. Opponents stood side by side to achieve this goal. The campaign continues. Sunday, April 6th, 1986 was this years first Sunday of Tranquility.[5]

SMALLPOX: An Example of Cost Effectiveness

In 1967, smallpox killed an estimated two million people. The last case of smallpox was recorded in 1977. The total cost of the campaign to eradicate smallpox was $24 million a year. The United States contributed a total of $32 million to the campaign. Eradication allowed the U.S. to dismantle its elaborate quarantine and surveillance systems which had cost approximately $120 million a year. The U.S., now save more money every few months, than its total investment in the eradication effort.[6]

NETWORKING

An immunization campaign requires a new cooperation at every level of

society. This newly established network can provide the necessary information and education to guarantee basic health care for all.[7]

ROTARY: Private Sector Participation

Rotary International has pledged to provide all polio vaccine from now until the year 2005. A worldwide fundraising effort led by Rotarians will begin in July, 1986, with the goal of raising $120 million in four years. With Rotary as a catalyst, public and private resources can rid the world of polio and other childhood diseases.[8]

WHAT CAN THE UNITED STATES DO TO FORWARD THE GOAL OF IMMUNIZING THE WORLD'S CHILDREN?

Currently S 1917, The Universal Child Immunization Act of 1986, is before you. It requests that $50 million for immunization programs be added to the Child Survival Fund. I trust that if you commit to the goal of immunizing all the world's children you will find an appropriate way to fund this bill.

THE IFAD SPECIAL AFRICA FUND

WHAT IS THE OPPORTUNITY OF INCREASING FOOD PRODUCTION IN AFRICA?

At present, Africa is the only continent in the world where food production is declining. As we reverse this trend and begin to promote self-sufficiency, famine aid will pass into history.

The International Fund for Agricultural Development (IFAD), established in 1977, has one mandate, to increase food production in the poorest food-deficit countries.[9]

Given present budgetary constraints we should keep in mind the following: emergency grain exports cost the United States $400 per ton, whereas for $200 IFAD can teach farmers to grow one ton of grain this year and each year in the future.

EXAMPLES OF IFADS SUCCESSES:

GAMBIA — In Gambia a swamp reclamation and land redistribution project gave women the right to land they had worked. The result--rice production increased sixfold, benefiting 15,000 people in 40 villages.[10]

MALI — Mali is one of the African countries hardest hit by drought. A village development project has stimulated investment in agriculture and the country has seen an increase in average farm incomes from $40 per year to $365. In addition, new health clinics and water systems now reach 90,000 people.[11]

DJIBOUTI — In Djibouti loans and training increased employment in a large fishing community resulting in a threefold increase in the catch of protein-rich seafood.[12]

"The Special Africa Programme is designed to consolidate gains made from emergency relief efforts and develop lasting solutions to the chronic food production crisis. As in all IFAD programmes, it will target assistance to the most vulnerable and potentially productive members of the society: the rural poor."[12]

The United States is being asked to contribute $30 million to the IFAD Special Africa Fund this year.

SUMMARY

We have seen the possibilities: repeated truces in the midst of civil war, an increase in food production in African countries, primary health care networks in developing nations. The multiplication of these achievements will bring us to the top rung of the ladder: a new world, free from malnutrition and infection, a world which provides for the basic protection of the life and the health and the normal development of all our children. My vision is that when my daughter's children read their history books they read that the 1980s and 1990s were celebrated as the generation which protected and maintained the hard-won progress of the post-war years and which presided over the co-existence of unprecedented financial and technical capacity and used this capacity to eliminate malnutrition and infection.

The choice is ours.

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1. A Shift In The Wind, Vol. 5, The Hunger Project, 1985 pg.2
2. The State of The World's Children, 1986, UNICEF, pg. 6
3. Ibid, pg. 9
4. Ibid, pg. 2
5. Ibid, pg. 10
6. Ibid, pg. 19
7. Ibid, pg. 13
8. The Rotary Foundation of Rotary International, 1984-85 Annual Report, 1985, pg. 2
9. AFRICA, Sowing The Seeds of Self-Sufficiency, IFAD, pg. 2
10. Ibid, pg. 10
11. Ibid, pg. 20
12. Ibid, pg. 22

Senator KASTEN. Let me say thank you, first of all, for your comments, and also for your testimony. We appreciated the opportunity to work with you. As you know, the subcommittee shares your goals, and we have been supportive, and we will continue to be supportive of the basic directions that you are working on.

I think that we are making progress, and people are recognizing that the goals that you described are, in fact, attainable. It is not as if we have to go out and reinvent a brand new technology. It is not as if we are searching for a solution. We have the solution, and the question is the distribution system and the efforts that we are able to make.

I thank you for your testimony, and I look forward to working with you.

Mr. WATERS. Thank you.

Senator KASTEN. Our next witness is Robert A. Basil, vice president for policy of the American Lebanese League. Mr. Basil, welcome.

AMERICAN LEBANESE LEAGUE

STATEMENT OF ROBERT A. BASIL, VICE PRESIDENT FOR POLICY, AMERICAN LEBANESE LEAGUE

IMPORTANCE OF LEBANON TO U.S. INTERESTS

Mr. BASIL. Thank you, Mr. Chairman.

My name is Robert Basil, policy chairman of the American Lebanese League, a nationwide nonprofit organization founded by American citizens in 1976 to promote United States-Lebanon relationships, and to foster the sovereignty, security, democracy, and independence of Lebanon within the bounds of the U.S. national interests.

Senator KASTEN. Let me just make an announcement. In the interest of trying to get some kind of order here, we are going to let people in and out when we change witnesses. So if you are here now, you are here for the next segment. We are also going to try to work it so that we allow people in in the same period of time, and we won't have this disturbance.

The witnesses have come, in many cases, from a long way, and they deserve our attention.

Mr. Basil.

Mr. BASIL. I hope that I don't lose my 2 minutes of time, Mr. Chairman.

Senator KASTEN. You can start from scratch.

Mr. BASIL. Thank you.

I would like to discuss briefly the importance of Lebanon to the United States, and major U.S. policy and foreign aid actions that should be considered to achieve U.S. strategic and regional objectives, and freedom for the suffering Lebanese nation and people. Policy action and foreign aid must go together, otherwise foreign aid will not be effective.

Lebanon today is important far beyond its size and natural resources because it represents a unique and intense concentration of problems and opportunities facing the United States regionally and strategically. The four major problems the United States hoped to solve by the removal of all foreign forces from Lebanon in 1982 have grown worse. Soviet penetration of the region, international terrorism, weakening of the peace process, and regional instability affecting access to oil.

TERRORISM

Today, I would like to focus on terrorism, both the terrorism ravaging the suffering majority in Lebanon who daily bear the burden of foreign occupation, and by the civilized world who suffer from terrorism funded, trained, and exported from cesspools of terrorism that flourish within Lebanon.

Lebanon and its suffering silent majority have been held hostage for 11 long years. On April 13, 1975, almost 11 years to the day, a war was started in Lebanon by radical forces determined to bring down the Lebanese nation. Since that day, the Lebanon the world had come to

know and admire as a center of culture, civility, commerce, free press, education, a safe haven for all religious and ethnic minorities, the only working democracy in the entire Arab world, the only free, secure Christian community in the entire Islamic world, has been ravaged by fanatic forces who despise, and are determined to eradicate, every single one of these noble facets of the Lebanese national character.

No more grim example can be given than the campaign by these radical groups to force a massive, permanent demographic change in Lebanon by systematically uprooting and dispersing its ancient Christian community. During these 11 years, over 450,000 Christian men, women, and children have been displaced from their homes, villages, and farms, many living under the most difficult circumstances in Lebanon, many others dispersed throughout the world—the United States, France, Belgium, Cyprus, Brazil, Australia—all waiting to return.

Over 106 churches and convents have been destroyed or desecrated, priests and nuns have been murdered, mutilated, or violated, over 110 Christian villages overrun. Of the 1.2 million Christians, almost 40 percent, have been killed, wounded, orphaned, or displaced.

LIBYAN-SYRIAN-IRANIAN-PLO AXIS

The Libyan-Syrian-Iranian-PLO axis comprise these radical forces. Libya, who massively funds radical groups in Lebanon, Syria, Iran, and the PLO, who have major military presence, both with armed aliens and armed surrogate nationals, loyal to Qadhafi, Assad, Khomeini, and Araffat, making a mockery of loyalty to the Lebanese nation.

Not surprisingly, the identical Libya-Syria-Iran-PLO axis leads the international terrorist assault against the free world, particularly the United States. A partial list of atrocities includes assassination of Ambassador Melloy in Beirut, blowing up the U.S. Embassy twice, slaughtering our fine young marines in the barracks disaster, the TWA hijacking last year, the recent killing of four innocent passengers, including the lovely 10-month-old child on the TWA flight to Athens.

The terrorist camps in Lebanon, sponsored and supported by the Libya-Syria-Iran-PLO axis, plan, train, and execute their terrorist acts against U.S. interests and targets only to return untouched into the dark sanctuary of Lebanon. Mrs. Mai Mansour, a prime suspect in the most recent TWA tragedy, admits that she and her political party work actively against U.S. interests, but denies that she or her party would commit any violent act such as murdering innocent civilians.

Mrs. Mansour's husband was killed as a driver in a suicide bomb attack. Her political party, the Popular Syrian Party, demands that Lebanon give up its sovereignty and join a Greater Syria, and her political party is the main apparatus used by Syria to perform its terrorism in Lebanon, including random shelling with heavy artillery of large civilian areas of innocent and defenseless women and children, car bombing, and other terrorist acts. If tomorrow there is proof that Mrs. Mansour is guilty, will it be possible to apprehend her and bring her to trial?

Mr. Hobeika, one of the prime suspects in the assassination of President-elect Bachir Gemayel, and who subsequently launched the vicious attacks against civilians in Sabra and Chatilla, tried to sign away Lebanon's sovereignty last December. He is now in Syrian-controlled territory, and is the prime suspect in masterminding and executing the savage car bomb attacks that haunt and decimate the innocent Christian population, whose only sin is to be major focus of resistance and refusal against Syrian hegemeny.

Just the day before yesterday, civilians, including innocent mothers with children, shopping in a fish market in Jounieh were deliberately attacked by a car bomb. If firm evidence confirms that Mr. Hobeika is guilty, will it be possible to bring him to trial?

The American Lebanese League fully endorses President Reagan's decision to retaliate against Libyan targets in order to preempt further terrorism. Effective retaliation not only frees democratic nations from terrorism, but also helps the population of the terrorist state who themselves are hostages of their own regimes.

Qadhafi's systematic liquidation of large numbers of people who oppose his regime has not stilled political opposition, whom U.S. actions hearten to continue efforts to overthrow Qadhafi and moderate their national policy. This holds true for Syria and Iran also.

U.S. RETALIATORY ACTIONS

The policy of appeasement always holds a certain attraction, albeit fatal and flawed. History has inevitably shown that we must sacrifice a little now, or much more later. Unfortunately, many U.S. allies and all moderate Arab states will not applaud the U.S. retaliatory actions unless this action guarantees either the collapse of the regime, or the total cessation of its terrorist activities. Short of that, they will continue to express concern or even opposition because of the fear of terrorism against themselves. However, when we succeed, these same nations will be among the first to note the wisdom and the courage of our policy.

As for the Government of Lebanon, its official position on the U.S. action is of no consequence since the nation is held hostage by this Libyan-Syrian-Iranian-PLO axis. But the Lebanese people quietly applaud and fully support President Reagan's action.

The courage of Lebanon's silent majority remains. They will keep their country free, regardless of the cost in lives and hardship. However, the United States needs to help, not only in a humanitarian way, but also to try to blunt terrorist groups and states from completing the total, long-term takeover and control of Lebanon.

RECOMMENDED ACTIONS BY UNITED STATES

Consequently, ALL strongly recommends that the United States implement the following actions:

First, major humanitarian aid to Lebanon in excess of what has been asked.

Second, major economic aid to Lebanon in excess of what has been asked.

Third, this is especially important, extend UNIFIL mandate in South Lebanon, and also expand its mandate to other areas of Lebanon controlled by the Libyan-Syrian-Iranian-PLO axis.

Fourth, consider policy actions against the states sponsoring terrorist activity.

The late President-e'ect Bachir Gemayel summed up the feelings of the suffering silent majority of the Lebanese people in a personal letter he wrote to President Reagan in which he quoted Gen. George Washington addressing the Continental Army in the darkest days of the Revolutionary War:

> Our cruel and unrelenting enemy leaves us only the choice of brave resistance, or the most object submission. We have, therefore, to resolve to conquer or die.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Basil follows:]

STATEMENT

BY

ROBERT A. BASIL

VICE PRESIDENT - POLICY

AMERICAN LEBANESE LEAGUE

Mr. Chairman:

My name is Robert Basil, Policy Chairman of the American Lebanese League, a nationwide non-profit organization founded by American citizens in 1976 to promote United States-Lebanon relationships and to foster the sovereignty, security, democracy and independence of Lebanon within the bounds of the U.S. national interest.

We are not a lobbying organization but an educational, humanitarian and social organization with the broad national membership base representing the philosophy and ideals of the two million and one-half Americans of Lebanese descent...

I would like to discuss briefly the importance of Lebanon to the U.S., and the major U.S. policy and foreign aid actions that should be considered to achieve U.S. strategic and regional objectives, and freedom for the suffering Lebanese nation and people. Policy action and foreign aid must go together; otherwise foreign aid will not be effective.

Lebanon today is important far beyond its size and natural resources because it represents a unique and intense concentration of problems and opportunities facing the U.S. regionally and strategically. The four major problem areas the U.S. hoped to solve by the removal of all foreign forces from Lebanon in 1982 have grown worse: Soviet penetration of the Mid-East region, international terrorism, weakening of the peace progress, regional instability affecting access to oil.

Today I would like to focus on terrorism, both the terrorism

daily ravaging the suffering, silent majority in Lebanon who daily bear the burden of foreign occupation, and by the civilized world who suffer from terrorism funded, trained and exported from cesspools of terrorism that flourish within Lebanon.

Lebanon and its suffering silent majority have been held hostage for eleven long years. On April 13, 1975, almost eleven years to the day, a war was started in Lebanon by radical forces determined to bring down the Lebanese nation. Since that day, the Lebanon the world had come to know and admire as the center of culture, civility, commerce, free press, education, a safe haven for all religious and ethnic minorities, the only working democracy in the entire Arab World, the only free, secure Christian community in the entire Islamic world, has been ravaged by fanatic forces who despise, and are determined to eradicate, every single one of these noble facets of the Lebanese national character.

No more grim example can be given than the campaign by these radical groups to force a massive, permanent demographic change in Lebanon by systematically uprooting and dispersing its ancient Christian community. During these eleven years, over 450,000 Christian men, women and children have been displaced from their homes, villages and farms, many living under the most difficult circumstances in Lebanon, many others dispersed throughout the US, France, Belgium, Cyprus, Brazil, Australia, all waiting to return. Over 106 churches and convents have been destroyed or desecrated, priests and nuns murdered, mutilated or violated, over 110 christian villages overrun. Of the 1.2 million Christians, almost 40% have been killed, wounded, orphaned or displaced.

The Libyan-Syrian-Iranian-PLO axis comprise these radical forces: Libya, who massively funds radical groups in Lebanon; Syria, Iran and the PLO, who have major military presence both with armed aliens and armed surrogate nationals, loyal to Kadafi,

Assad, Khomeini and Arafat, making a mockery of loyalty to the Lebanese nation.

Not surprisingly, the identical Libya-Syria-Iran-PLO axis leads the international terrorist assault against the Free World, particularly the U.S. A partial list of atrocities include assassination of Ambassador Melloy in Beirut, blowing up the U.S. Embassy twice, slaughtering our fine young men in the Marine Barracks disaster, the TWA hijacking last year, the recent killing of four innocent passangers, including a lovely 10-month-old child, on the the TWA flight to Athens. The terrorist camps in Lebanon, sponsored and supported by the Libya-Syria-Iran-PLO axis, plans, trains and executes its terrorist acts against US interests and targets, only to return untouched into the dark sanctuary of Lebanon.

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tion, whose sin is to be the major focus of resistance and refusal against Syrian hegemeny over Lebanon. Just day before yesterday, civilians, including innocent mothers with children shopping in a fish market in Jounieh were deliberately attacked by a car bomb, designed to kill not only innocent people but expecially the spirit of the population. If firm evidence confirms Mr. Hobeika's guilt, will it be possible to bring him to trial?

A.L.L. fully endorses President Reagan's decision to retalliate against Libyan targets in order to pre-empt further terrorism. Effective retalliation not only frees democratic nations from terrorism, but also helps the population of the terrorist state who themselves are hostages of their own regimes. Kadafi's systematic liquidation of large numbers of people who oppose his regime has not stilled political opposition, whom US action heartens to continue efforts to overthrow Kadafi and moderate their national policy. This holds true for Syria and Iran also.

The policy of appeasement always holds a certain attraction, albeit fatal and flawed. History has inevitably shown that we must sacrifice a little now, or much more later. Unfortunately, many US allies and all moderate Arab states will not applaud US retalliatory actions unless this action guarantees either the collapse of the regime or the total cessation of its terrorist activities. Short of that, they will continue to express concern or even opposition because of fear of terrorism against themselves. However, when we succeed, these same nations will be among the first to note the wisdom and courage of our policy. As for the government of Lebanon, its official position on the US action is of no consequence, since the nation is held hostage by the Libyan-Syrian-Iranian-PLO axis. But the Lebanese people quietly applaud and fully support President Reagan's action.

The courage of Lebanon's silent majority remains. They will keep their country free, regardless of the cost in lives and

hardship. However, the U.S. needs to help, not only in a humanitarian way, but also to try to blunt terrorist groups and states from completing the total, long-term take-over and control of Lebanon.

A.L.L. strongly recommends that the U.S. implement the following actions:

1. Major humanitarian aid to Lebanon.
2. Major economic aid to Lebanon.
3. Extend UNIFIL mandate in South Lebanon, and also expand its mandate to other areas of Lebanon controlled by the Libyan-Syrian-Iran-PLO axis.
4. Consider policy actions against the states sponsoring terrorist activity.

The late President-Elect Bachir Gemayel summed up the feelings of the suffering silent majority of the Lebanese people in a personal letter he wrote to President Reagan, in which he quoted General George Washington addressing the Continental Army in the darkest days of the Revolutionary War:

> "Our cruel and unrelenting enemy leaves us only the choice of brave resistance, or the most object submission. We have, therefore, to resolve to conquer or die."

Thank you, Mr. Chairman.

Senator KASTEN. Mr. Basil, thank you very much for your testimony. I appreciate your being here today.

Our next witness is Mr. Andrew E. Manatos of Manatos and Manatos. Mr. Manatos is presenting testimony today on behalf of the United Hellenic American Congress, the American Hellenic Alliance, and the Pancyprian Association of America.

UNITED HELLENIC AMERICAN CONGRESS, AMERICAN HELLENIC ALLIANCE, AND THE PANCYPRIAN ASSOCIATION OF AMERICA

STATEMENT OF ANDREW E. MANATOS ON BEHALF OF UNITED HELLENIC AMERICAN CONGRESS, AMERICAN HELLENIC ALLIANCE, AND PANCYPRIAN ASSOCIATION OF AMERICA

FOREIGN AFFAIRS BUDGET

Mr. MANATOS. Thank you, Mr. Chairman.

I know that the hour is late, and you have a long schedule in front of you. I would like to, if it is acceptable, submit my prepared statement for the record, and just touch on some points.

Senator KASTEN. Without objection, so ordered.

Mr. MANATOS. I would like to begin by pointing out that this is a unique year in the U.S. Congress for foreign policy development, not only does the Appropriations subcommittee this year have to deal with budget problems, but also with sending foreign policy signals in that the Foreign Relations Committee and the Foreign Affairs Committee passed 2-year authorization bills last year.

On the budget question, if I might address something that doesn't immediately jump out of the numbers that I know will be of concern to the subcommittee is the actual dollars that will be handled this year by the subcommittee. We hear a lot about the 10-to-7 ratio. We hear a lot about Greece getting a half a billion dollars a year from the United States in foreign aid.

A real close look at the numbers, and looking at them from the perspective of American taxpayer dollars which leave this country for other countries and do not return, shows quite a different picture.

AID TO TURKEY AND GREECE

For example in this year's request, if you look at it in terms of taxpayer dollars that do not return to the United States, the request for Turkey is approximately $400 million. The request for Greece is $1.75 million.

I would encourage the subcommittee to look at the requests this year, and also the dollars last year in these terms, and to please distinguish between foreign aid which is loans that are to be paid back at current market interest rates, and foreign aid that goes out and never returns.

It is important, in maintaining the balance of the military relationship between Greece and Turkey in the eastern Mediterranean, it is of crucial importance to the United States. This is also an issue that in the excitement of the consideration of these matters frequently gets lost. There is a very real possibility of problems in the eastern Mediterranean between Greece and Turkey if this military balance is not maintained, and the type of aid that goes to those two countries plays a major role in that.

In this budget year, we have to take a look at where we can save. You can see from the taxpayer dollar perspective there is considerable amounts to be saved in the Turkish account, and very little in the Greek account.

Also on the foreign policy aspects, another aspect that frequently gets overlooked, except for this year when I think the Philippines will help us to focus on it, is our aid does not always accomplish what we want it to do in various countries.

PHILIPPINE AID

In the Philippines, for example, I think that public opinion toward the United States in the Philippines is directly related to positions that were taken by the United States in terms of passing on its aid, with some strings attached, with some pressure.

There was a report by the Helsinki Watch from a group that recently went to Turkey, and there is one sentence in there that was really very disturbing, and that was that of all the people interviewed at all the levels in Turkey, only one, the Prime Minister, was very favorable about the United States.

I know that this is the case with many other countries. We give a considerable amount of aid to them, and the return is not always the kind of result that we would hope for.

GREECE

If I might turn to Greece for just a moment, on behalf of the American-Greek community, I can report to you that whereas 1 year ago there was extraordinary concern about the direction in which Greece was headed, there has been extraordinarily good signals from Greece. There were tremendous actions over this last year. I can say this with such assurance that if anyone does hear anything negative, it usually is based on misinformation, and we would love to share information about clarifying it.

I would like to submit, for the record, an article that was written by the subcommittee chairman of the European Subcommittee, Senator Pressler, regarding the incredible turnaround and progress that Greece has made.

SITUATION IN CYPRUS

If I might turn for a moment to Cyprus, away from the ten to seven ratio between Greece and Turkey that we think is so important, and the concessionary aid for Greece that we think is so important. If I might for a moment address what is happening on Cyprus.

There have been some great strides made there for the United States this last year. They had an election. The Communist Party in Cyprus received one of the lowest votes it has received in some time. The U.S.S.R. is moving to counter that. I don't know if you have heard about it, but Russia has come up with its Cyprus solution in an attempt to regain popularity on that island.

The people of Cyprus have done a great deal for us. One of the very few things that we do in return is provide that $15 million in aid each year that goes and is divided on the Island of Cyprus between the Greeks and the Turks.

We, in the Greek-American community, want to reward the Greek Cypriots for the phenomenal actions that they have undertaken on our behalf. Every time we turn to them, they have helped us.

As a matter of fact, if I might just conclude by reading to you something that was broadcast in Cyprus last Monday regarding what happened with Colonel Qadhafi. As you may have seen in the news, there were bases on Cyprus that were going to be made available to us, should we need them. In response to that, Mr. Danktach said, and I quote from his radio broadcast that "This could have been possible only with the consent of President Kyprianou and the Greek Cypriot government." He then went on to say, "No part of Cyprus should be used as a basis for inhumane attacks on Libya." He defended Mr. Qadhafi's stance as a legitimate self-defense.

In conclusion, I would hope that those kinds of things would be taken into consideration so that we might be able to maintain the help that we have had for the Greek Cypriots in the past.

Thank you.

[The prepared statement of Mr. Manatos follows:]

STATEMENT OF

ANDREW E. MANATOS

Mr. Chairman:

I appreciate the opportunity to testify today on behalf of Andrew A. Athens, Chairman of the United Hellenic American Congress; George P. Livanos, Chairman of the American Hellenic Alliance; and Philip Christopher, President of the Pancyprian Association of America.

The Foreign Operations Appropriations Subcommittee has before it this year a major budgetary problem. People across the United States are asking, "Why should we make major sacrifices in our tax supported government programs so that people in other countries can receive even more of our tax dollars." I am sure that many subcommittee members are sympathetic with these feelings.

I would like to propose that the subcommittee consider responding to that budget concern in a way that will be very valuable to American security interests in the Eastern Mediterranean. As you know the Appropriations Committee carries with it this year an added foreign policy responsibility because the Foreign Affairs and Foreign Relations Committees enacted a two year authorization bill last year. Thus, this subcommittee will communicate American foreign policy signals for this year to aid recipient nations.

In order to address both the budget and foreign policy concerns regarding Greece and Turkey, the subcommittee must first look very closely at the Administration's requests for those countries. The costs to the American taxpayer are not what they may appear. We hear a lot about the 10 to 7 ratio in aid between Turkey and Greece, and we hear a lot about Greece receiving a half of a billion dollars in American aid. A close examination of the flow of American taxpayer dollars to Greece and Turkey that will be lost to the Treasury will reveal strikingly different information. This year's Administration requests would give Turkey $400 million American taxpayer dollars and would give Greece only $1.75 million. The Administration is asking that we give Turkey about $50 million more in cash than we did last year. For Greece, the Administration is asking that we give approximately $22 million less in cash than they received last year.

It is very important that this subcommittee distinguish clearly between foreign aid in the form of loans to other countries which are paid back at current market interest rates as distinguished from cash gifts that are given to countries. This distinction is very real for our budget deficit and for the American taxpayers.

It is clear that there are substantial savings to be secured in a Turkish account. Such savings would also serve well the United States in our foreign policy interests. The savings would help us communicate to the nation of Turkey a message similar to the one our country recently communicated to the Philippines so successfully -- that America will keep the pressure on any country which uses our foreign aid to suppress democracy, oppress its citizens, or in the case of Turkey to militarily occupy another country. As someone said, if Corazon Aquino was Turkish, she would not have been allowed to run for office. Turkey must get the message

that the U.S. will not tolerate its use of our aid domestically against its people or to occupy the Republic of Cyprus.

Now, Mr. Chairman, I would like to turn to Greece for a moment. Since I do not have time to go into the long list of extraordinarily supportive things Greece has done this last year, let me instead submit for the record an article which shows some of the great pro-U.S. strides in Greece that should be encouraged by our aid. The article appeared in the Christian Science Monitor and is written by the Chairman of the Subcommittee on European Affairs of the Senate Foreign Relations Committee.

Mr. Chairman, the balance of power between Greece and Turkey must be maintained if the southern flank of NATO is to remain secure. If the balance is tipped, conflict is a very real possibility and such conflict would be a disaster for NATO.

Within the 10 to 7 ratio of aid to Turkey and Greece the Subcommittee must take into consideration the kind of aid that each country is getting and what that is doing to throw off the balance. If we don't, our country may well cause the makings of a real disaster in the Eastern Mediterranean. Concessionary aid for Greece was omitted in the Administration request.

Mr. Chairman, if I might say a few words about the Republic of Cyprus. This country owes a lot to that poor, beleaguered island nation. Those people support us in every way possible during every one of the terrorist and hostage situations that we have encountered of late. They do this even though it was American military armaments that enabled Turkey to invade their country. It is American military aid that enables a country like Turkey that has economic problems to maintain an army on Cyprus which costs it over $200 million a year. Yet the Greek Cypriots went to the polls during the last election and voted a major setback for the communist party in that country.

Mr. Chairman, we may be on the brink of a new effort on Cyprus which could throw away an invaluable friend. In light of the communist setback, the U.S.S.R. has come forward with the proposal to solve the Cyprus problem. And what, Mr. Chairman, are we doing to keep the people of Cyprus as our friends?

Two weeks ago our country was listening to the leader of the Turkish Cypriots say that he "prayed for the souls of the martyred Libyans" killed as a result of the March 24th and 25th conflict in the Gulf of Sidra. Two weeks ago, also, because our State Department discouraged American officials from violating the United Nations' and United States' non-recognition of the pseudo state of Northern Cyprus, he called us "ugly Americans."

Last year's law set $15 million in aid for Cyprus this year and I believe strongly that it must be maintained. We must do what we can to help these people who have helped us so much.

And finally, Mr. Chairman, on the Cypriot settlement talks, I would like to ask the Subcommittee if it would assign a staff member to look into who has been reasonable and who has not been reasonable. That person will find that in each negotiation the Greeks give in on some point or other and the Turks then pull out of the talks. The next negotiation begins at the point where the Greeks previously conceded and then moves the Greeks to giving up more while the Turks stand put or even stand firmer.

THURSDAY, MARCH 16, 1986 THE CHRISTIAN SCIENCE MONITOR

US and Soviet relations with Greece

By Larry Pressler

OVER the last two years, the United States has greatly improved its security position in the eastern Mediterranean by balancing its relations more equally. In the past, US policy was often seen as narrow, focusing on Greece *or* Turkey *or* Cyprus. Bilateral relations and NATO strategy often suffered as a result. However, a new maturity now seems to be infusing United States policy toward the eastern Mediterranean. Secretary of State George Shultz has broadened the policy focus to one that is now more equally Greece *and* Turkey *and* Cyprus.

This more balanced assessment of America's priorities, which recognizes the roughly equivalent importance of Greece and Turkey as allies, has made America's appeal in the region more persuasive than that of the Soviets. The effects are most obvious in our relations with Greece.

A wide variety of settings illustrate significant improvement in US-Greek cooperation since 1984.

Prime Minister Andreas Papandreou reacted to American information identifying Soviet spies in Greece by quickly arresting them last September. American and Greek antiterrorist experts have been training together in both countries for several months, and Greece's minister of culture, actress Melina Mercouri, has proposed an "American Month in Greece." Each of these events is the product of a renewed Greek and US determination to revitalize relations.

US-Greek cooperation heightened even further on Jan. 7 when the two nations signed the General Security of Military Information Agreement. It obligates both sides to safeguard information and technology exchanges, and is viewed as an indication of Greek seriousness in improving bilateral ties. In response, the US notified Greece on Jan. 11 of approval for the sale of 40 F-16s to Greece.

Other talks are also progressing.

A Greek delegation came to the United States in December to discuss a technical accord on industrial cooperation in defense, and civil aviation talks will resume soon. In addition, the United States is now operating two powerful Voice of America transmitters in Greece under an expired agreement which the Greeks still respect.

In sum, all indications suggest that the basic tenor of the United States relationship with Greece has significantly changed since 1984. Recent progress on many fronts seems to indicate that when the US base agreement expires in 1988, the renewal could be easier than previously expected. Indeed, Mr. Papandreou has subtly shifted his position in the last few weeks. He now states that any government in power in 1988 can introduce new legislation to support a new agreement. In anticipation that real progress can be made on this issue, US contact with Greece has increased. Undersecretary of State Michael Armacost went to Greece in October. Secretary of State Shultz met with the Greek foreign minister, and Mr. Shultz plans to meet with Papandreou this spring.

Revitalized US-Greek relations are born of three factors: Papandreou's postelection recognition of the damage done by excessive anti-American rhetoric; Greek interest in eliminating the terrorist threat to civilized international relations; and an American awareness that the period of rhetorical anti-Americanism is past history.

By contrast, 1985 was a particularly poor year for the Soviets. After the Greek spy scandal, the Soviets withdrew their ambassador, Igor Andropov, son of the former premier. The Communist Party also won its lowest percentage of the Greek vote in recent times (9.89 percent) in 1985. Similarly, on Cyprus the Communists experienced an even greater electoral setback in recent parliamentary elections.

The US relationship with Greece has significantly changed since 1984. Recent progress indicate[s] that when the US base agreement expires in 1988, the renewal could be easier than previously expected. Mr. Papandreou now states that any government in power in 1988 can introduce new legislation to support a new agreement.

Only a year ago, Soviet Ambassador Andropov was riding high in Athens. The Soviets had moved agressively to fill a gap perceived to exist in the hearts of Greeks disillusioned by American actions.

The Soviets apparently felt that the United States had lost Greek support in the left and center for embracing the Greek junta and that more were disillusioned on the right over the United States response to the invasion of Cyprus by Turkey.

Soviet attempts to woo Greece took many forms. Thousands of Greeks have been embraced by the Soviets during visits to the Soviet Union. Hundreds of Greek and Cypriot youths have been provided free college educations at Eastern-bloc universities. The Soviets have also moved to invest in Greece. In 1986 Greece and the Soviet Union signed a 10-year economic and technical cooperation agreement.

By contrast, the US association with Greece is longstanding. Deep links tie our two countries together: similar histories, cultures, and philosophies of government, respect for the individual, and a stress on religion and family.

It is clear that the US now has another chance to reestablish the extremely close ties once enjoyed with this strategically situated country.

The comparative United States advantage over the Soviets in Greece and Cyprus will continue if the United States learns from its recent experience in improving relations with the area. The United States must not allow itself to frame the issue as "Turkey *or* Greece *or* Cyprus." The correct formulation for American policy is "Turkey *and* Greece *and* Cyprus." The United States cannot make this sort of mistake as it has in the past. American security interests in the eastern Mediterranean depend on it.

Sen. Larry Pressler (R) of South Dakota is chairman of the subcommittee on European Affairs and a member of the Foreign Relations Committee.

ROUND OF TALKS PLANNED

Senator KASTEN. I saw an article in the New York Times today saying that there was another round of talks developing. I didn't understand exactly where they were going. Do you think that it is in a positive direction?

There clearly is enough blame to put in all different corners.

Mr. MANATOS. I agree with that. It is clearly a positive thing that there are talks because there has been so little movement. The prognosis on those talks, though, it is not particularly good, and is disappointing.

Having peaked at what it is that is being discussed, it is not as optimistic as we had hoped. I hate to sound cynical, but after being with this issue for as many years as we all have, one can easily become cynical. One can take a look at the Congress, and pretty much predict what is going to happen with the talks from the Turkish side.

Last year, when the focus of the Congress was so heavily on Greek rhetoric, and there really was very little threat to Turkish aid, the United Nations proposed a settlement agreement. The Greek Cypriot said, yes, within 20 days. The Turkish side didn't respond for months, and then responded with a 30-page document criticizing and nitpicking.

The previous year, you may recall, there were some very close votes as the spectre of settlement was about to occur was before us. Now again this year, Greece has turned around, that threat is gone, and once again we are having the carrot dangling before us that there may be some progress.

We are as hopeful as anybody that there is because the people of Cyprus have suffered too long.

Senator KASTEN. We thank you for your testimony. We look forward to working with you.

Mr. MANATOS. Thank you very much.

Senator KASTEN. Our next witness is Mr. David L. Guyer, who is the president of Save the Children. We look forward to your testimony, and welcome.

SAVE THE CHILDREN

STATEMENT OF DAVID L. GUYER, PRESIDENT, SAVE THE CHILDREN

PROGRAM GROWTH

Mr. GUYER. Thank you very much, Mr. Chairman. I guess we represent the sort of medium size private voluntary agency. We are not the largest, we are not the smallest, but we are very much part of this community. We feel that it has a very important role to play in the years ahead.

When we take a look at the multilateral and the bilateral programs, they are very important, but I think the lowest on the totem poll in the past has been this community. If you look around the world and you see United Nations budgets leveling off, and our bilateral and other bilateral programs under trouble, this is a very vital community, and it

is growing these days. I think nowhere has this been shown more vividly than in the actions in Africa over the last few years.

We, for example, were not even in Sudan 10 months ago, and yet there is a $4 million program affecting the lives of 400,000 people today.

So I think that we and our colleagues in interaction have an ever more important role to play in the years ahead because of our cost effectiveness, and the fact that we make programs work.

SELF-HELP COMMUNITY DEVELOPMENT PROGRAM

Our own program has been very much tied to self-help community development for the last 55 years. We started the first hot lunch program in Kentucky, but it wasn't a handout program, it wasn't a give-away program. It was a program in which the women themselves cooked the food for the students, canned it, and preserved it, so we had a hot lunch program that was really from the people themselves.

This last month, I took the board out to Africa to see some of these projects. I remember one particular project that impressed them a lot, and that was a storage room, about the size of this room, that was built out of stone, had a thatch roof, and all the grains that came into that area were stored there. They had built it themselves.

One of the board members said: "How much did this cost?" They said, "$2.50." He said, "Do you mean $2,500?" They said, "No, $2.50." "Do you mean $250?" "No, $2.50. All we paid for was the lock on the door." Everything else was built by the people themselves. That is to us a very important part of development. It is very crucial, and it adds another $10 million into our budget if we added all the self-help that people do around the world that we work with.

So I think that as we take a look at budget cuts, and we are all going to have to go through them, it is something that we are going to have to live with, it is necessary, but I hope the committee, and your colleagues, will take a good, hard look at what works. What is it that is cost effective, that is not mega-priced, and take a hard look at those as one begins this process of Gramm-Rudman cuts.

BILATERAL FUNCTIONAL ACCOUNTS

We support the administration request for fiscal year 1987 funding of AID's bilateral functional accounts. We particularly take a hard look at our support for the Health Account, and for the Child Survival Account, and for this new universal immunization by 1990.

These are not terribly expensive operations. They are operations that the PVO community can play a very key role in, and I think do it to the satisfaction of the world community.

We also support the use of ESF money to further development assistance objectives. Last, we encourage something else, Mr. Chairman, and that is, AID is in a very difficult situation today because of the cuts. They have had to reduce their staff around the world.

Many of us—CARE is going to be speaking in a minute, and they represent the U.S. presence in the Congo, in Brazzaville. They represent the U.S. presence in the Comoro Islands. People from the South Pacific will also be testifying in a few minutes, and they are doing the same thing in the South Pacific. We represent the American presence, through AID, in Kiribati and Tuvalu in the South Pacific.

These are again cost effective ways of getting the American presence into these areas, without a very large operating budget and administrative overhead.

SOUTH PACIFIC AREA

I must say, in the South Pacific, it may seem strange in a meeting like this to single that area out, but I am very concerned about what is happening there in the last year or so. We have had more friendliness and more open-heartedness on the part of the South Pacific group than any other part of the world. Those nine countries down there have been very supportive of American action. But the budget is being cut from $3.5 million to $1.5 million for nine countries representing a quarter of the whole world, the area clear from Australia to Hawaii. The Russians are moving in with fishing pacts of various sorts. We see the whole situation changing before our eyes overnight.

With all of the other problems in the world, I hesitate to mention that, except that we must watch every section of the world that we are working in in partnership with you, and we hope that you will take a look at that.

Last, I think we want to say that in addition to all the other things that you are doing, Mr. Chairman, we do appreciate what you are doing with Senator Kennedy in introducing S. 2208, the African Famine Recovery and Development Fund Act, and anything that we can do to help, we will be happy to do so in this case.

Thank you.

[The prepared statement of Mr. Guyer follows:]

Statement of David L. Guyer

President, Save the Children

Mr. Chairman, members of the Subcommittee, my name is David Guyer and I serve as President of Save the Children, the international child assistance and community development organization based in Westport, Connecticut. I am pleased to have the opportunity to appear before you today to discuss issues of critical concern to Save the Children and other American private and voluntary organizations (PVO's) making up InterAction, the American Council for Voluntary International Action.

Let me begin by saying that all of us in the PVO community recognize the difficult position that the Congress as a whole, and the Appropriations Committees in particular, are in at this time. There is no doubt that difficult and unpopular choices must, and will be made. I want to go on record now to applaud the work of this Subcommittee and its Chairman in standing up for a workable approach to U.S. foreign assistance programming levels for those programs which most directly address the critical problems of poverty and development around the world.

I particularly want to commend the Chairman for his outstanding leadership, along with Senator Kennedy, in the effort to create a truly effective program of assistance to the continent of Africa, the "final frontier" in hunger and human need. Your recent introduction of S. 2208, the African Famine Recovery and Development Fund Act, is an important step toward the creation of a coherent and comprehensive program of assistance to a continent with great problems and, we must not forget, great promise. You can count on the continuing support

of Save the Children and our InterAction colleague agencies in making your proposal a reality.

As the Subcommittee continues the difficult task of evaluating the various proposals and priorities before it for FY 1987 in an environment focused on deficit reduction and budget-cutting, I hope that you will keep in the foreground two critical factors, to which I will devote the rest of my comments.

First, it is essential that those U.S. foreign assistance programs which have the most immediate impact on the quality of life and well-being of the poor majority in the developing countries continue to receive adequate funding, and do not get hit with disproportionate cuts in the face of more politically "well-protected" programs. Second, in the effort to enhance the efficiency and effectiveness of these development-oriented programs, an enhanced partnership with American private and voluntary organizations is a viable alternative to government-to-government programs. There are concrete actions you can take in both these areas.

Development assistance aimed at improving the quality of life for the poor majority is the heart and lifeblood of the U.S. foreign assistance program. Foreign assistance authorizations and appropriations measures have uniformly made this clear since the early 1970's, and we at Save the Children are naturally in full support of maintaining this principle. It is easy to lose sight of these imperatives when forced to choose between them and other programs which show a more visible and immediate short-term return on our investment, or have a more vocal constituency. Yet both humanitarian and hard-nosed American foreign policy, security and trade interests will be best served by aid aimed at improving the

ability and commitment of societies to provide for the basic human needs of their people.

I therefore urge that you resist the pressure to cut these programs, and support at least the Administration's request for FY 1987 funding in AID's bilateral functional accounts. To the extent that the Administration request for current programs falls below FY 1986 level, we urge funding at the FY 1986 levels. These levels, already dangerously low, would at least avoid the wholesale "gutting" of programs which are aimed at improving the quality of life for the poor while building stable and productive developing country economies.

In addition to maintaining Administration's request levels or above for these crucial programs, we urge your support for essential new initiatives which have the potential to make a dramatic impact on developing country infant and child mortality. These include continuing support for the Health account, Child Survival activities and especially the campaign for Universal Immunization by 1990. This achievable objective has the potential of saving some 3.5 million young lives each year at a cost of under $5 per child. I should note, however, that like other health initiatives, universal immunization is not a "quick fix" which can be successful in isolation. To work, it must be approached within the context of an integrated approach to health care including growth monitoring and adequate nutrition, areas which are less glamorous and quantifiable, but absolutely essential if mortality rates are to be significantly reduced. Save the Children is proud to be participating in the effort to bring about this "quiet revolution." Our field offices now report that systems for the regular immunization of all children and women of childbearing age will be in place throughout each of our programs by the end of 1988. In all cases, this will be done in the context of a comprehensive program of primary health care. I cannot

emphasize enough the importance of maintaining solid support for the entire Health program, while strengthening oversight to ensure that funds appropriated are getting to the field and being used in the most effective ways possible.

There is yet another tool for effective development assistance programming available to the Subcommittee. I am referring to the Economic Support Fund (ESF) program, which represents one of the most flexible means of providing foreign assistance. Without suggesting that all of ESF could be abandoned in favor of development assistance, we recognize and support the increasing trend toward the use of ESF monies in manners consistent with and supportive of development assistance objectives. There are several means of accomplishing this, ranging from projectized administration of ESF as is being done in several African countries now, to the use of country agreements specifying the uses of the funds or requiring that local currency generated be used for development purposes. To the extent that ESF will continue to be a significant part of the foreign assistance program, we believe that such approaches should be tested and implemented widely.

There is no doubt that expanded and continuing efforts must be made to ensure that the programs for which funds are appropriated are as efficient and effective as possible. This is especially true in the current climate of diminishing resource availability. We cannot afford to try and solve problems by throwing money at them. I hope it is safe to say that all of us have learned that lesson, often the hard way.

I urge you, in your quest for programming that works, to continue to look hard at the private sector, including the community of private and voluntary organizations which are engaged in an increasingly vital public-private partnership with the U.S. Government in many different arenas. In many

cases, this partnership involves the use of funds provided by the U.S. Government. In many others, however, it utilizes primarily private resources. In 1985, American PVO's raised and spent over $1 billion in funding from the private sector alone, more than double the level of twenty years ago. We believe that the potential exists for even more expansion as the American public becomes increasingly aware and informed of the needs and opportunities facing us all.

Just as an example, Save the Children spent nearly $60 million last year on community development and human assistance programs in 44 countries including the United States. Of this total, more than $35 million, or 59%, was raised from private sources -- mostly from our constituency of over 323,000 individual donors around the United States. The remaining 41% came from state, federal and international governmental sources including AID, the State Department, the Department of Health and Human Services and the United Nations. AID and the State Department provide the bulk of this government support.

Our partnership with the U.S. Government permits us both to enter new program areas, test new approaches, and replicate approaches which have proved workable elsewhere. We believe it to be a healthy partnership, and one with room for growth. We take very seriously the thinking of our friends at AID, including looking carefully at their suggestions that we consider becoming involved in finding more effective ways of using U.S. food assistance for development purposes, but we will never put ourselves in the position of becoming dependent on the U.S. Government or allowing anyone other than our own voluntary Board of Directors to dictate where or how we should conduct our programs.

I am keenly aware that statements advocating an expanded role for PVO's are seen by some as "self-interested" -- an easy

way of survival for organizations unwilling to or incapable of raising funds from other sources. I am also extremely sensitive to the need for safeguards to preserve the "privateness" and integrity of the PVO's themselves. Overdependence on government, in my personal view, is a hazard which challenges the very nature of the private and voluntary movement to which I am committed.

For this reason I speak in support of the 20% privateness test included in this year's appropriation as an imperfect but useful first step toward insuring the independence of voluntary agencies seeking U.S. Government funding. I urge you to continue working closely with InterAction and its members to go beyond simple percentages, to an approach which will provide effective safeguards while recognizing that fluctuations will occur, not inhibiting the birth and growth of new voluntary organizations, and not discriminating against voluntary agencies or setting up increasing use of contracts and other funding mechanisms which bypass the PVO safeguards altogether.

My unabashed advocacy of a greater role for PVO's is based on simple observation and experience. In my thirty-five years in international service, including time with our own State Department, with the United Nations, and the last fourteen years with Save the Children, I have seen all kinds of good-intentioned development programs: bilateral, multilateral and private. I feel absolutely secure in saying that the people-to-people, private sector approach of voluntary agencies such as Save the Children has a record of success that is unmatched by other approaches. This point of view is borne out by study after study and evaluation after evaluation, including the recent congressionally mandated AID report on Development Effectiveness of Private and Voluntary Organizations published in February of 1986. No study, however, can truly capture the impact of a program on the lives and perceptions on people. So

I both urge and invite you on one of your next overseas trips to take the time to visit a development program of Save the Children or another InterAction member. I feel safe in saying that it will be a rewarding and enlightening experience.

I do not suggest that PVO's are perfect, or are uniform in their effectiveness. On the contrary, we have been improving our own professionalism, skills and techniques dramatically over the past years, and this process is continuing. Fundamentally, however, the PVO approach of innovative, community-based, participatory, self-help oriented, replicable programming which is both forward looking and appropriate to the local social, cultural and political environment, is one that works, and one which all Americans can be proud of. One small but significant legacy of this approach can be seen in Haiti, where the U.S. economic assistance program was administered almost completely through PVO's. The impact of these programs on the quality of life of the Haitian people has been well documented, but even more clearly visible is the reservoir of positive feelings toward the U.S. which has remained strong in spite of the political tension and upheaval. One can only speculate about the impact this approach could have in other parts of the world, where Americans are not always seen as wearing the white hats.

In many countries, PVO's already serve as the principal U.S. development assistance implementers. This approach could easily be expanded to others, resulting both in more effective programming, and in significant cost savings in AID's operating budget for overseas staff.

For these reasons, I suggest that the current climate of deficit reduction provides a good opportunity for the Congress to undertake a redirection of how its money is spent -- toward programs that truly work. In keeping with the experience of

the PVO's, as well as with the Administration's commitment to with, through and for the private sector, I urge that you use this opportunity to strengthen the private sector components of the program. This includes not only the PVO's themselves, but also the American cooperative movement, business organizations and foundations.

In closing let me once again thank the Subcommittee, its Chairman and staff for the work you are doing. We at Save the Children, and our colleagues in the PVO community as a whole, look forward to continuing to work with you to build an even more effective program of U.S. assistance to the developing world.

SUPPORT OF S. 2208

Senator KASTEN. First of all, thank you for your testimony.

I am pleased that you support S. 2208, and maybe you have been here in the room during the discussions with AID and others, this is an initiative that Senator Kennedy and I really intend to get into place.

Someone referred to the fact that we are unlikely to have an authorization bill this year because we are operating under a 2-year authorization bill, so any change that will be made will be made within the context of the appropriations process. If we are able to move forward with some of those initiatives, we would like very much to continue to work with people like you. It is geared toward more of the kind of activities that you are familiar with anyway, and we thank you for your comment.

We look forward to working with you in trying to work out some of the legislation with you. I also thank you for the work that you are doing. We have enjoyed the cooperative relationship that we have had with you, and we look forward to continuing working with you in the future.

Mr. GUYER. Thank you, Mr. Chairman.

Senator KASTEN. Our next witness will be Mr. Paul E. Hebert, who is a member of the board of directors, and also treasurer of CARE. We are pleased to have you before the committee today. We look forward to your testimony.

CARE

STATEMENT OF PAUL E. HEBERT, MEMBER OF THE BOARD, AND TREASURER, CARE

Mr. HEBERT. Thank you very much, Mr. Chairman.

On behalf of my colleagues in Madison, WI, and Credit Union National Association, they told me that if I didn't thank you for all the

good help that you gave us in our domestic legislation, that I needn't return home today. Thank you very much for that, and thank you very much for the good work that you are providing us, with the things that we think are important in overseas development.

I would like to associate myself with the previous witness, Chuck Dean of our Cooperative Development Committee, and some of the good things that the last witness, Mr. Guyer, said. It is indeed through these types of organizations that we can put our best foot forward around the world, and do the kinds of things that this country is best known for, and do them rather economically, and do them, I think, rather well.

The bridges that we build through this sector will all go well for our future for many years to come.

As some of you know, CARE is celebrating its 40th anniversary this year. We are kind of proud of that. We are having a congressional breakfast up here on May 8, and I hope, Mr. Chairman, that you will find the time to come and join us.

Senator KASTEN. I hope so, too.

Mr. HEBERT. The President has written to us on April 8, commemorating our 40th celebration, and I have attached his letter to my written report, which you may want to refer to.

UNITED STATES DONOR NATION TO OECD

There is an item in my testimony that I would like to correct, and it is on unnumbered page 5, which has to do with the United States position as a donor nation with respect to the OECD. We are really not 16th, we are the last, the 17th, and I think that that needs to be taken into account when we put together our money accounts for foreign aid.

It is important to appreciate that supporting foreign economic assistance is in our Nation's best interest. Foreign economic aid helps us because there is a relationship between economic development and stability. It is a move toward peace just as assuredly as our security assistance programs.

Not too many weeks ago, John Whitehead, the Deputy Secretary of State, met with our CARE International Board here in the city, following one of our meetings. He said, "I told Secretary Weinberger that he, too, should be supporting foreign aid for all the good things that we do," and we hope that perhaps in his infinite wisdom he might want to do that.

CARE INTERNATIONAL

I don't want to repeat the kinds of things that are already in our testimony, Mr. Chairman, but with the decline of financial resources that we are all going through, CARE, 6 years ago, set into motion a CARE International, and what we are trying to achieve is, in recognition of the fact that there are diminishing resources, perhaps, in this country, there are many other resources in the world that perhaps can be tapped for the kinds of things that we do.

The name of CARE, as some of you know, is respected in many countries of Europe, to the extent that we thought that they may want to join us in International CARE to support this kind of development. To the extent that we have been successful in 6 years, we now have six of those National CARE's in place, mobilizing resources from their own governments, from their publics, and from other multilateral organizations, and helping us do the work of CARE.

As a matter of fact, NORAD, last year, in Norway, through their CARE-Norway organization, provided a little over a million dollars, $1.2 million, I think, for aid in Africa. The Germans, through CARE-Deutschland, are providing substantial aid in key countries in Africa. We have CARE-France which is doing substantially good things in Africa, and several other countries which are doing similar things.

We think that this is the best spirit of Americans again in the private sector, associating themselves with friends in other countries to spread the kinds of things that CARE has been known for over the years.

SUPPORT FOR S. 2208

I, as Dave Guyer said earlier, want to commend you for joining with Senator Kennedy in S. 2208. I think that it was a very important initiative on your part. We also want to commend you for the initiatives that you and your colleagues are taking in helping us do more within the NGO community, the private sector community, working directly with people. We think that it is important. We have shown the results of it. I think that cost effectively, it is working well. I think what we need to do is intensify that effort.

I think, to the extent that you are able to do that, we, too, will be able to work with you, support you where we can, and bring that about.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Hebert follows:]

PREPARED STATEMENT OF PAUL E. HEBERT

TREASURER OF CARE

Mr. Chairman, thank you for the opportunity to appear before the Senate Foreign Operations Subcommittee today. My name is Paul E. Hebert, and I serve both on the Board of Directors of CARE and as its Treasurer. I am also Director of the Washington Office of the World Council of Credit Unions which is the international arm of the Credit Union National Association (CUNA): an association based in Madison, Wisconsin representing more than 20,000 of our nation's state and federally chartered credit unions.

CARE is celebrating its 40th anniversary this year with commemorative activities that include a Congressional Breakfast on May 8th. I hope you will attend. I have also attached for the record a letter from President Reagan dated April 8,1986 which pays tribute to CARE's 40 years of service.

Today CARE is the largest private non-sectarian organizations in the world. Total CARE USA program activities were $325 million in 1985 and CARE Canada, CARE Germany and CARE Norway added another $14 million. Now CARE France, CARE Britain and CARE Italy are also providing several millions of dollars of additional assistance. We carry out relief, rehabilitation and development projects in 38 developing countries with a staff of nearly 5000 people.

Combined management and fund-raising costs represent less than 5.9 per cent of the total value of the goods and services we deliver, but fund raising costs are increasing. Federal budget retrenchment has already brought sky-rocketing costs to direct mail fund raising. The different categories of federally subsidized third class non-profit mail rates have gone up between 45 and 68 per cent since the beginning of the year. Last year, before the rate hikes, CARE's postage costs totalled $1.26 million.

In carrying out these programs, CARE works closely with the U.S. Agency for International Development often through matching grant agreements. This linking of CARE's privately raised donor funds with U.S. Government grants can leverage additional assistance for important and mutually agreed upon projects. Matching grants under the Agricultural account for example have helped CARE to develop the world's largest agro-forestry program (Agro-forestry is the growing of trees and agricultural crops or livestock on the same plots of land. This increases food, fuel and income for farmers and herders while preventing soil erosion through sustainable land management strategies.); carry out a national education program with America's farm community entitled "Sharing Global Harvests: The Kinship of Farmers", and increase the primary health care impact of CARE's food aid with new design elements (child care education, oral rehydration therapy and immunizations, family food production) and management support activities (staff training, evaluation, computerized logistics and inventory control).

Recently CARE was also awarded AID's first Partnership Grant: a five year, $8.5 million matching grant funded under the Energy; Private Voluntary Organizations and Selected Development Activities Account that will establish regional technical assistance teams to support micro-enterprise development, primary health, and agro-forestry projects worldwide.

We are greatly concerned with how FY87 foreign aid appropriation levels will affect the level of effort of CARE and other voluntary organizations and cooperatives in designing viable and effective poverty focused project assistance. Direct, highly participatory project assistance through non-government channels is a very cost-effective use of foreign assistance dollars. Indeed in two African countries, Congo and Comoros Islands, CARE's presence acts as a substitute for an AID mission which cannot be economically maintained in these small but poor countries.

Of continuing importance are PL 480 food aid and grants

provided through AID's Title II office and the Office of Foreign Disaster Assistance for hiring trucks and paying fuel and related costs to transport urgently needed food in Africa. Beyond this, most U.S. matching support to CARE is provided under the bilateral Agriculture (103), Child Survival (104), and the Energy, PVOs and Selected Development Activities (106) account. I want to underscore the importance of these bilateral development assistance accounts which are the cornerstone of our worldwide partnership with the Agency for International Development. We recognize and appreciate the strong support Senator Kasten and members of this Committee have given to these accounts.

At the same time, the concerns of our organization extend beyond our project activities. CARE's publicly stated purpose is both "to help the developing world's poor in their efforts to achieve long term social and economic well being" and to "advocate public policies and programs that support these ends". It is with this guidance in mind that I appear before you today to present our views on matters of funding under this Committee's jurisdiction.

CARE believes it is important to tie U.S. foreign aid spending to accomplishments of poor nations and international organizations in meeting basic needs and overcoming key development problems. Fortunately the United States is not alone in this effort, but when the net flow of resources between developed and developing countries is reversed (as it is today) and more capital both human and physical leaves poor nations than enters from the West, our leadership is needed. We are concerned that low foreign aid appropriations coupled with protective earmarks for politically more popular accounts could further reduce aid flows to the poorest nations and to the the poorest members of such societies. Similarly, the valuable work of international organizations like UNICEF and UNDP is jeopardized by recision requests and proposed FY87 funding cuts.

We believe the United States should rank better than 17th out of 17 Western nations in providing foreign economic assistance

(measured in percent of per capita GNP), and it is disturbing that we are now a fairly minor donor in several of the world's poorest countries, and in many important international organizations and programs. This diminished commitment to development assistance programs is, in our opinion, short-sighted. Nor is it altruism that persuades us of the importance of foreign economic assistance. We are convinced that healthy economies and equitable economic development are key to effective U.S. security and trade policies.

Accordingly, we urge the Committee to continue its support for bilateral and multilateral development assistance at the FY87 levels proposed by the Administration. The only exception to this that we would recommend is based on the fact that the Administration's FY87 request for IFAD (0), UNICEF ($34.2 million), UNDP ($102.5 million) and the U.S. bilateral health account ($151 million) is substantially below current spending and the consensus levels arrived at by this Committee in FY86 ($50, $53.5, $135, $205 respectively). We believe these accounts should be funded at the levels the Committee agreed on last year. Although we felt that a few programs including the IDA Africa Special Facility and the United Nations Environment Program could have received more support from this Committee last year, we were generally very appreciative of this Committee's action, particularly your defense of the bilateral agriculture and migration and refugee assistance accounts. We would hope for similar leadership from this Committee again this year and stand ready to publicly support you in this endeavor. In our opinion, such funding would reflect the values and expectations of the majority of American people in providing foreign aid.

We realize that the Senate and House Budget Committees are under pressure to make deep cuts in the overall (150) international affairs account from current FY86 levels, and are proposing that costly new initiatives be funded from existing funds. But CARE believes that these proposed reductions should not apply to

bilateral and multilateral development assistance programs. Development assistance has already been cut to the bare minimum. Since 1970 bilateral and multilateral development aid has declined by 50 per cent in constant dollars, and further cuts could do irreparable damage to the programs and institutions the United Sates helped establish and to the quality of life and opportunities of millions of overseas poor.

I also want to reiterate my belief that there is an untapped public constituency for these poverty focused programs. We know this from experience. We have worked with the American farm community for the past three years in our development education program and have been inspired by the depth of their understanding and commitment in spite of their own economic hardships. Last year CARE received over $40 million in public donations from over a million concerned Americans. We stand ready to work with you in whatever way we can to continue to build this support.

In closing, Mr. Chairman, I want to commend both you and Senator Kennedy for introducing S. 2208 which establishes a focused yet more flexible framework for extending relief and longer term recovery and development assistance in Sub-Saharan Africa. CARE has worked closely with other private voluntary organizations in InterAction on this legislation and we believe with you that it is an excellent beginning.

THE WHITE HOUSE

WASHINGTON

April 8, 1986

I congratulate all of the wonderful people who have dedicated their time, their efforts and, yes, their real care to the work of the Cooperative for American Relief Everywhere -- CARE. This is an especially proud occasion for your organization, and I know that Nancy is particularly honored to serve as Honorary Chairman on this, the fortieth anniversary of the founding of your magnificent enterprise.

The "everywhere" that now lends a letter to your familiar acronym is no exaggeration. In four short decades, your organization has developed a worldwide reputation for timely and effective assistance to the victims of calamity and conflict. Only those who received them will ever fully appreciate what a "CARE package" meant -- and continues to mean. After the devastation of World War II, it meant that families in Europe were receiving the food and other necessities to survive and rebuild. It meant comfort in the present and hope for the future. It told the people of Europe that America would not only fight beside them in war, but would work beside them in peace to clear away the ruins and help them resurrect their lives and their dreams.

As you celebrate this milestone in your history, the work of CARE has expanded to many other continents, and so has the package of assistance you offer. No longer is the aid you provide simply shipped in bundles. CARE is present today in 36 developing countries conducting people-to-people assistance programs in the fields of nutrition, health, education, small enterprise development, and agroforestry. But the ideals that guided the founders of CARE have not changed -- nor has the impact your programs have on the people whose lives you daily enrich.

Truly, CARE is meeting the challenge. With the millions of people you have helped, I join in a resounding "thank you." Again, congratulations, and may God continue to bless you in your noble mission.

Ronald Reagan

Senator KASTEN. First of all, thank you for your comments. I think, without question, all of us are looking forward to continuing the kind of shift over to less bureaucracy and more delivery of services, which is the ultimate goal that we are looking for; but on the way, less involvement of government, whether it is the host country government or our Government, and more of an involvement of people, volunteers, private voluntary organizations, and groups such as yours, Save the Children, and other groups.

So I thank you for your testimony. You are aware of the fact that we do have constraints this year, and pressures this year. We are going to be working, to the degree that we can, to continue and to maintain these programs. Frankly, it is one of the reasons that we want to be moving toward more work in the private sector, because we get more results per dollar as we put more money into direct services that are helping people, and less in the bureaucracy that is in the process of delivering it.

We thank you for the work that you are doing, and thank you for taking the time to testify here today.

Mr. HEBERT. Thank you, Senator.

Senator KASTEN. Our next witness is Ms. Paula Newberg, who will testify on behalf of the Lawyers Committee for Human Rights.

Ms. Newberg.

LAWYERS COMMITTEE FOR HUMAN RIGHTS

STATEMENT OF PAULA NEWBERG, LAWYERS COMMITTEE FOR HUMAN RIGHTS

HUMAN RIGHTS SITUATION IN PAKISTAN

Ms. NEWBERG. Thank you, Mr. Chairman.

I am here on behalf of the Lawyers Committee to discuss the human rights situation in Pakistan. I have been in Pakistan several times, for about 3 months in the last year and a half for the Lawyers Committee.

We believe that the confluence of two developments, one the lifting of martial law in Pakistan earlier this year, and, second, the proposed administration assistance package of $4 billion or so, afford the Congress a unique opportunity to help promote respect for human rights in Pakistan.

My testimony addresses the human rights situation specifically, but I would be happy to elaborate on other issues.

As you know, General Zia, helped in part by the administration's encouragement, formally lifted martial law effective January 1, 1986. Many aspects of military rule were abolished, including military courts, harsh censorship, and the absolute ban on political parties. However, a number of important issues remain unresolved, which I have outlined more comprehensively in my testimony. I will just highlight them here briefly.

First, many political prisoners remain detained in Pakistan. Our written testimony suggests about 200; some releases in the last week or so

may bring the number down somewhat. Nonetheless, they were all tried by summary procedures and military courts during the martial law period, without due process, right to counsel, fair trial, or any other provisions.

Second, during December 1985, to facilitate the formal lifting of martial law, many summary trials were scheduled with alacrity, and this afforded even fewer opportunities to present fair cases. Among them were 26 people tried by special military courts who were granted death sentences under these provisions.

Third, maltreatment in Pakistani prisons seems to remain a constant. Torture during martial law was a regular brutal part of imprisonment. According to Pakistani human rights groups, these practices have not entirely ended.

Fourth, indemnity legislation passed in 1985 exempts General Zia and his military government from challenges to acts committed under the martial law regime. The law is sweeping and prohibits challenges to military court sentences as well, and some martial law ordinances remain in effect.

Fifth, judges who were dismissed after a 1981 provisional constitutional order removed power from civil courts, have not been reinstated.

Sixth, prosecution of a religious group called the Ahmadis continues. Four Ahmadis have had their death sentences confirmed by General Zia in 1986, after trials, which many believe, were instigated by the government solely on the basis of their religious differences with this group.

Beyond these specific infractions of human rights law is what we think is an equally serious concern, with profound implications for future American relations with Pakistan. The current Pakistani Government is strongly disliked and unacceptable to many Pakistani citizens. To them, General Zia's military rule has not ended. The General Assembly is viewed as a tailormade disguise for military governance. Rather than legitimizing military rule, it has, for many Pakistanis, served to delegitimize the democratic process.

These concerns about Pakistan's domestic problems extend to its relationship with the United States. In Pakistan, anger toward the military easily translates into resentment toward the United States, and the United States-Pakistani relationship.

Many Pakistanis believe that huge U.S. military assistance packages have helped General Zia remain in power, and that the United States has pursued policies which follow the general blueprints.

Public statements by the U.S. Ambassador in Islamabad critical of the moderate democratic opposition, particularly during the period surrounding the 1985 elections, which, by the way, were done without political party participation, have further fueled anti-American sentiment.

Because of all these factors directly affecting future relations between Pakistan and the United States, we hope the Congress will scrutinize carefully the scope, the nature, and the timing of the proposed assist-

ance, hold full committee hearings on the proposals, and consider methods to maintain leverage and pressure on the Pakistani Government to make lasting progress with respect to human rights.

[The prepared statement of Ms. Newberg follows:]

Lawyers Committee
for Human Rights

PREPARED STATEMENT OF PAULA R. NEWBERG

Mr. Chairman, thank you for inviting me to testify. My name is Paula Newberg. I am here on behalf of the New York-based Lawyers Committee for Human Rights, a public interest law center that works to promote compliance with internationally recognized human rights and legal principles.

I will confine my remarks today to the subject of human rights in Pakistan. Last July, the Lawyers Committee issued a 116-page report on the human rights situation in Pakistan based on a mission of inquiry of which I was a member. The report concluded that human rights violations under General Zia's regime were grave and far-reaching, and had deeply compromised the legal foundation for civil liberties in Pakistan. Since our report was issued, martial law in effect since July 1977, has been formally lifted. I returned to Pakistan this winter, again on behalf of the Lawyers Committee, to observe the lifting of martial law and the enactment of reforms.

The Lawyers Committee believes that congressional attention to the human rights situation in Pakistan is particularly important at this time for two reasons. First, the Administration has recently proposed a $4.02 billion military and economic assistance package covering a six year period beginning in FY 1987. Second, the human rights situation in Pakistan is now at a critical turning point; whether it takes a turn for the better or the worse will depend in part on external factors, such as pressure, or the lack thereof, from friendly and aid-giving governments. Internal forces are gathering toward stronger popular demand for the full restoration of democracy and the rule of law.

While the lifting of martial law as of January 1, 1986 was a welcome, significant step forward, a number of important issues, which I will outline in my testimony, have yet to be resolved. The confluence of these developments affords Congress a unique opportunity to promote respect for human rights in Pakistan.

I believe that the United States government deserves a substantial measure of credit for encouraging General Zia ul Haq to lift martial law. In part because of that, I also believe the Congress can, through the appropriations process, encourage further steps to guarantee full democratic rights to Pakistan citizens. The current situation should be viewed with care, and future American relationships with Pakistan should be structured with caution to provide a sound basis for significant reforms.

Steps taken thus far to lift martial law and reinstate democratic government in Pakistan have been tentative and partial. On the positive side, the formal reinstatement of the 1973 constitution at the beginning of 1986 technically ended military rule; military courts have been disbanded, and most pending cases have been transferred to civil courts; and political parties have been allowed to form. These welcome developments notwithstanding, important tests of the government's commitment to restore democracy and human rights still lie ahead.

One test concerns the government's treatment of political prisoners who remain detained. The Pakistan government asserts that only a handful of political prisoners are now detained, and that new detentions have been scarce since January. We estimate, however, that over 200 political prisoners remain in detention in all four provinces. These include twelve of an original 100 students arrested in Sind in 1984 after the military opened fire on busloads of students; members of Quetta's Shia community, arrested after confrontations with the military last summer during a religious procession; and many individuals detained after clashes with the military government. In

addition, political prisoners remain jailed for criticizing the military government's actions during martial law. Despite requests from civil rights organizations and politicians in Pakistan, the government has not published the charges for which most of these prisoners were sentenced. Some long-standing prisoners -- including political leaders Rasul Bux Palejo and Fazil Rahu, and philosophy professor Hasan Zafar Arif -- have remained in prison without trial for several years even though Mr. Palejo, whose detention was recently renewed for another three months, has suffered from prolonged and serious illness.

Continued incarceration of so large a number of political prisoners is disturbing also because most were tried by military courts which were broadly criticized by international human rights organizations for their summary procedures. The majority of cases pending in military courts as of the end of 1985 were transferred to civil courts when martial law was lifted, although several in Sind province have not been transferred. However, the government attempted to dispose of a large number of cases before military courts directly prior to lifting martial law at the end of December. Because of a backlog of uncharged and untried cases in late 1985, the government rushed through a large number of cases in summary military courts in November and December. These efforts to complete dockets in military courts led to more than the usual quick-and-dirty military justice in late 1985, with military judges taking the unusual step of announcing the end of cases before they began. At least twenty-six people were sentenced to death in political cases held before special military courts in December. Thus, while re-establishing civilian court jurisdiction has been an important improvement, the continued detention of prisoners convicted under summary procedures remains a problem.

In addition, no attempt has been made by the government to return to office the Supreme Court and High Court judges who were dismissed

after General Zia replaced the Constitution with a Provisional Constitutional Order in 1981. The order removed all powers from civil courts; these senior judges had questioned the order's legality. The continued absence of these judges remains a testing point for the regime.

A special one-judge court has been established under 1975 anti-terrorist legislation to replace the military tribunal hearing the case of the Sindhi medical students who were fired upon by the military in 1984. However, this law places the burden of proof on the accused rather than the accuser.

The limits on court jurisdiction, outlined in the 1985 Revival of Constitution Order, have yet to be tested fully. In the Punjab and Sind, lawyers have filed petitions challenging; death sentences imposed by military courts applying summary procedures; none has been overruled to date and a number of political prisoners have had their death sentences confirmed by the President. Only the President has the authority to commute such sentences.

Reports of torture have continued in 1986. During the years of martial law, fetters were used routinely in detention, and maltreatment was commonplace. While vigilant domestic and international complaints have reduced the use of fetters somewhat, civil rights groups in Pakistan suspect that the practice may still be continuing.

Democratic institutions remain weak and political rights are still curtailed. Power resides primarily with the President, who as Chief Martial Law Administrator took his present title and office after an uncontested 1984 referendum. He has the power to declare a state of emergency without parliamentary consent, and thus cancel fundamental rights unilaterally.

The President's highly centralized power is all the stronger because he and the former military government were granted indemnity for all actions taken from 1977 through 1985: actions, ordinances and

regulations, and court decisions are all immune from challenge. This indemnity law is the broadest granted any martial law government in Pakistan's history. Not only are decisions taken in that period inviolable, but some of the orders promulgated under martial law remain in force.

The civilianizing of Pakistani politics remains slow and difficult. The government-controlled national assembly took office after a restricted election, without the participation of political parties. Because parties were explicitly excluded from sponsoring candidates or campaigning, the multi-party Movement for the Restoration of Democracy felt compelled to boycott the 1985 elections. In return, the martial law government outlawed the advocacy of boycott and imprisoned at least 1000 MRD supporters. For many Pakistanis, the legitimacy of the assembly as a representative democratic body is thus called into question; the fact that the national assembly approved the indemnity laws has not added to its popular acceptance.

Political parties, while no longer formally banned, are now regulated by the 1979 Political Parties Act. While written with the expressed intention of minimizing corruption, in fact the act — which provides rules for party registration -- continues to offer the president the power to regulate and control the political process. Thus far, most parties have chosen not to register under the act's requirements.

Political demonstrations are now allowed, and informal, non-governmental attempts to form a commission to examine crimes committed by the military government have not been thwarted, despite broad indemnity laws. Harsh censorship was also revoked when martial law was lifted, and the press is no longer required to operate at the express instruction of the government. Yet, the government recently demanded that the newspaper Amn retract its criticism of torture in the Sind town of Sukkur, and threatened to stop publication for three months.

Free expression is most severely circumscribed for a religious community called Ahmadis. Followers of a minority sect considered unIslamic by the government, Ahmadis have increasingly been subject to government-sanctioned discrimination and persecution. A 1984 Presidental order restricting the rights of Ahmadis remains in force, and has been the legislative justification for trials instigated by the government after conflicts between Ahmadis and non-Ahmadis in Punjab and Sind. Four Ahmadis have had death sentences confirmed by President Zia on the basis of these trials, and are currently awaiting execution. Not only has the Pakistan government turned a deaf ear to mercy pleas for these cases, but both the President and the Prime Minister have regularly issued public statements condemning the sect. All Pakistani Muslims are now required to sign anti-Ahmadi statements in order to procure passports and other official documents.

Beyond these infractions of human rights lies an equally serious concern, with profound implications for future American relations with Pakistan. The current Pakistan government is strongly disliked and unacceptable to many Pakistani citizens. To them, General Zia's military rule has not ended. The national assembly is viewed as a tailor-made disguise for military governance. Rather than legitimizing military rule, it has for many Pakistanis served to delegitimize democratic processes. Despite urging from all sectors of the Pakistani public, General Zia continues to maintain his two positions, as President and Chief of Army Staff, concurrently, and has made no substantive gestures to separate the army from political power. The return to democratic rule and civilian government can only be viewed with questions and concern.

These concerns about Pakistan's domestic problems extend to it relationship with the United States. In Pakistan, anger toward the military easily translates into resentment toward the United States and the U.S.-Pakistan relationship. Many Pakistanis believe that huge U.S.

military assistance packages have helped General Zia remain in power, and that the United States has pursued policies which follow the General's blueprints. Public statements by the U.S. ambassador in Islamabad critical of the moderate democratic opposition -- particularly during the period surrounding the 1985 elections -- have further fueled anti-American sentiment.

The scope and nature of future U.S. assistance has received considerable attention in Pakistan. Not only the U.S. association with General Zia, but the enormity of the military assistance, has made a strong impression on the Pakistani public. Time and again, criticism of the General's relationship to the American government is paired with a persistent fear that, in the interest of pursuing U.S. goals in Afghanistan, conditions in Pakistan are being ignored. Fears abound that a long-term, large unconditional commitment of billions of dollars of aid now, before democratic politics has been allowed to take hold in Pakistan, will simply renew the military's access to the political arena, and invite the excesses of recent years anew.

Given the tenuous nature of civilian participation in Pakistani politics today, a new long-term aid commitment to General Zia, following directly an earlier, lengthy aid package, seems inappropriate. If General Zia plans to open political discourse in Pakistan, and allow a firm grasp for civilian government, time is needed to give such initiatives an opportunity to grow. For the moment, the partial nature of political change is potentially unstable: raised hopes and expectations engendered by the foraml lifting of martial law have yet to find and outlet.

A guaranteed five-year assistance program reduces the leverage available to the United States to encourage such democratizationand future stability in Pakistan. A one-year commitment of economic assistance, with provision for additional funds later, would seems a more cautious and constructive approach.

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If a multi-year package is to be approved, however, we would like to encourage the Congress to adopt the kind of approach pursued with the Philippines. At that time, Congress adopted a policy to "front-load" the economic portion of aid, explicitly leaving open the possibility of "back-loading" the military portion in the later years of the agreement. Insofar as military aid has become a symbol of U.S. support for the Pakistan military, a policy of deferring military aid would send a clear message to Islamabad that this aid is contingent upon respect for civil liberties, democratic rights, and the complete withdrawal of the military from politics. Equally important, it offers Congress flexible power to adjust each segment of the aid package to maintain pressure and leverage on the Pakistan government to guarantee an independent judiciary and full respect for civil liberties and political rights.

At the very least, given the size of the aid package and the importance of these concerns, we would request the Congress to hold full committee hearings before making its final decisions about the proposed appropriation to Pakistan. We believe it is extremely important that the Congress ensure that adequate opportunity is available to human rights experts and specialists on Pakistan to discuss fully the implications of a new assistance package.

Senator KASTEN. We thank you very much for your testimony. Frankly, this is something that a number of us have become experts on, and I appreciate your bringing it to our attention. We appreciate your contribution to our goals.

Ms. NEWBERG. Thank you.

Senator KASTEN. Thank you very much.

Our next witness is Dr. Foege, president of the American Public Health Association.

Mr. WATSON. Mr. Chairman, Dr. Foege has come down with an acute case of food poisoning in the middle of the night.

Senator KASTEN. Maybe he was at the same restaurant that Dr. Lomis was.

Mr. WATSON. No, sir. I asked him, and he said that he ate at home. [Laughter.]

Mr. WATSON. It is embarrassing for the president of the American Public Health Association.

Senator KASTEN. You are appearing in his stead?

Mr. WATSON. Yes, sir.

TASK FORCE FOR CHILD SURVIVAL

STATEMENT OF WILLIAM C. WATSON, JR., ON BEHALF OF THE TASK FORCE FOR CHILD SURVIVAL

WORLDWIDE HEALTH PROBLEMS

Mr. WATSON. I am a colleague of his in Atlanta, and I work with him on the Task Force for Child Survival.

Senator KASTEN. We will have Mr. Watson representing the American Public Health Association.

Mr. WATSON. I have prepared testimony which we will insert in the record, and I will try to summarize that very quickly, and very briefly. I want to make two basic points, really.

One, problems in health in populations in the world are big and, indeed, may be called horrendous, but as you already indicated, we are making real progress, and there are good reasons for the United States to participate in these programs.

You have already heard facts about the size of the problem. Very briefly, 15 million children die each year before they reach the age of 5, and 97 percent of those are in the developing world, and a large percentage of those from things that could be prevented, such as the vaccine for preventable diseases.

We have some indicators, both short- and long-term, of progress that is being made. In terms of short-term progress, the testimony says such things as the amount of vaccine being used globally went up from 1983 to 1985 threefold. Deaths are declining from the vaccine preventable diseases from 5 million to 3.5 million. A half-million children's lives are being saved each year from the diarrheal diseases.

IMMUNIZATION PROGRAMS

Immunization levels are up encouragingly over the last few years. There are indications that 60 percent of the children of the world are now being reached by the system, albeit only one-third of the children are being adequately immunized.

Insofar as long-term indicators of concern, this is some data that we put together recently. This table shows that infant mortality is down over the last two-and-a-half decades. In 1960, there were 14 countries that had an infant mortality rate of 200 or over, and today there are none. In 1960, only 8 countries had an infant mortality rate of 25 per 1,000, and now there are 35 countries.

LIFE EXPECTANCY AT BIRTH

Table II, life expectancy at birth for 130 countries is equally encouraging. In 1960, 34 countries had a life expectancy of 39 years or less, and now there are only two. There were 13 countries with a life expectancy of 70 years or more, and there are 42.

Improved birth rates are equally encouraging. In 1960, over 50 percent of the 130 countries had births of 45 or over per 1,000 population, and today that is down to 30 percent, and only 1 country in 1960 had a birth rate of 14 or less, and now there are 15.

Perhaps most important is this scatter diagram that indicates that there is a direct correlation taking place between lowering of infant mortality and the lowering of overall annual population growth. There is a direct correlation, as infant mortality goes down, annual growth rates also go down, contrary to what many people believed.

There is still a big problem, and the problem is not half finished yet. We are also encouraged by the fact that there is support being generated around the world, not just from the United States, for these programs.

Italy has come in with a major contribution, as I am sure you know, Spain, Canada, Rotary International has come in with $120 million for polio. UNICEF's European Country Committees are committed to raise $100 million for a measles campaign.

Perhaps most encouraging of all is that our data indicate that 80 percent of the cost of the immunization program in the world, for example, are still being borne by the developing countries themselves. There is the building of a political will in those countries to mount these programs at the head of state levels. There is country after country after country where we are seeing that take place.

CHILD SURVIVAL FUND

We now get to the considerable contribution that the United States has made, and we want to thank Congress for establishing the Child Survival Fund. Our basic position in APHA is, succinctly put, that we would like to see the health item in the AID budget maintained at last year's level of $200 million, the population item at $290 million, and Child Survival increased to $75 million.

There are very good reasons. You have heard the cost/benefit of smallpox. There is probably no other program like that one, but the last outbreak of polio in the United States was directly traceable to cases abroad, and the introduction of cases from abroad pose a continuing threat to the very, very effective measles control program that we have in the United States.

STAFFING LEVELS IN AGENCIES

I would also like to say that we are concerned, as some others have said, about the staffing levels in the agencies with responsibility for these programs—the Centers for Disease Control and AID. We think that the committee should take a look at that. We are concerned as to

whether the staffing levels are adequate to maintain the right kind of stewardship.

We would also like to say one final thing, and that is, we are very heartened by the overall efforts in Africa, but we also feel that the health aspect of that sometimes gets short changed. There is no reason to believe that the health status, and improvement of the health status in Africa can't proceed simultaneously with economic development and famine relief.

Thank you very much, sir.

[The prepared statement of Mr. Foege as presented by Mr. Watson follows:]

PREPARED STATEMENT

William H. Foege, M.D.
President
American Public Health Association

Thank you for the opportunity to represent the American Public Health Association before your Committee today. I am William H. Foege, President of the American Public Health Association. I am also the Executive Director of The Task Force for Child Survival.

APHA represents a combined national affiliate membership of over 50,000 community health leaders and health professionals. The Task Force is sponsored by the World Health Organization, UNICEF, the World Bank, the United Nations Development Programme and the Rockefeller Foundation, as part of their effort to better protect the health of the world's children. The Task Force has focused primarily on accelerating and expanding childhood immunization programs in the Third World, but has a broad interest in the provision of better primary health care in developing countries.

I would like to make two basic points:

1. While the health and population problems of the world are so large that it is difficult to overstate them, they are not intractable. Progress is not only possible, it is being made.

2. There are compelling reasons for the United States to involve itself in the effort to help - including its own self-interest.

A recent NOVA production on child survival made the point that the

graphic pictures coming out of Ethiopia in connection with the famine there, have grabbed the world's attention, but that a much larger silent epidemic goes largely unnoticed. One-quarter of all deaths, totaling 15 million per year, occur among children under the age of 5, and of these, two-thirds are infants, that is, less than a year old. Ninety-seven percent of these deaths occur in developing countries, primarily nations where population growth is rapid. Children of the Third World die of diseases usually not considered lethal elsewhere. For example, it is estimated that over 3.5 million children die annually due to vaccine-preventable diseases, and death is not the only cost of these diseases. It is estimated that an additional 3.5 million children are crippled each year, many from polio. Others suffer mental retardation or blindness due to measles. The burden imposed by long-term crippling and by the diseases themselves provide an unnecessary barrier to the quality of life.

Health, disease and population have complex interactions. However, it is clear that the traditional disease burden of Third World countries heavily involves infectious diseases, malnutrition and population pressures.

Malnutrition makes many infectious diseases worse. It is also clear that repeated disease infections, including measles and diarrheal diseases, contribute to malnutrition, both by requiring excess calories for a diseased child and by causing a loss of calories and restricting intake of calories. By the same token, population pressures often facilitate disease transmission or impair sanitation, making infectious diseases worse.

The paradox is that increasing childhood mortality does not lead to reductions in population pressures. Indeed, the converse seems to be

true. The highest net increases in population are now seen in the countries with the highest infant and child mortality death rates.

Death control appears to be an important ingredient in birth control, and must be pursued vigorously. Ideally, maximum assistance should be given to countries to reduce unnecessary deaths, to reduce unnecessary illness and to provide knowledge about, and supplies for family planning.

The Secretary of Health of India on a recent visit to Atlanta stated that India's EPI program had the highest priority for two reasons: first, its obvious contribution to the prevention of needless death and disability; and second, because it is fundamental to the solution of India's population problem. She said, "until we can convince mothers that the children they have will live, they will continue to have too many."

And then there is the inevitable question, if children are saved from a measles death, will they simply die of something else? That is an argument advocated by some who doubt the wisdom of immunization programs. The answers are far from complete, but it is clear that:

1) much crippling can be reduced,

2) not all who are spared from vaccine-preventable diseases will succumb to other childhood diseases,

3) children dying of measles never have the luxury of testing their survivability from other conditions, and

4) the remarkable increase in life expectancy this century in the United States, (over 25 additional years at birth), is the result of one advance after another, accumulating to an additional

quarter century of life. The infants spared did not necessarily die in childhood of other diseases.

The problems are large, complex and difficult to solve, but there is dramatic progress to report over the last few years. In the last year and a half, many nations have doubled and tripled their levels of immunization against the vaccine-preventable diseases. In 1985, worldwide demand for vaccines was approximately three times that of the 1983 level, and the annual number of child deaths being prevented by vaccines is now estimated to be approaching 1 million a year. Progress is also being made against the diarrheal diseases, another big killer of children. Oral rehydration therapy (ORT) is a simple technique for preventing and treating the diarrheal dehydration which claims the lives of approximately 4 million children each year and is the leading cause of child death in the developing world. It is estimated that the spread of this simple, inexpensive technique is already saving the lives of over 500,000 children each year.

A look at the longer term also indicates that progress is being made. I have some tables and charts which I think illustrate the point.

Table 1, for example, shows infant mortality rates of 200 and over per 1,000 live births in 14 countries in 1960. In 1983, no country had rates this high. At the other end of the scale, in 1960 only eight countries had infant mortality rates under 25. In 1983, 35 countries did.

Table 2 shows life expectancy at birth for 130 countries. In 1960, ten countries had life expectancy of less than 35 years, in 1983, only one country did. Countries with life expectancy of 70 or more increased from 13 to 42. There were also notable changes in crude birth rates as can be seen in Table 3. In 1960, over half the

countries had birth rates above 45 per 1,000. In 1983, that percentage had decreased to 30%. In 1960, only one country had a birth rate of 14 or less and in 1983, 15 countries had a rate this low.

We can be encouraged by such signs of progress. It is much too soon to be comforted. Too much remains to be done. In childhood immunizations, for example, the coverage rate has gone from 10% to approximately one third, but the inescapable fact is that two-thirds of the children of the world still need to be reached. The Population Reference Bureau, in a recent report, stated that the global population growth rate after accelerating for two centuries has passed its peak. It has been declining from slightly more than 2% a year in the late 1960s to 1.7% now. The President of the Bureau stated, "human demographic history has reached an important turning point". However, the report went on to state that the population dynamics were such that the total population of the world would continue to increase and would exceed 10 billion by the end of the 21st century.

The population question is very controversial and the processes used in population programs, even more so. But, inarguably, the resources of our planet are finite and cannot support an infinite number of people. Any distribution of those resources approaching equity can be distorted by population pressures. I recently read that if the population of Bangladesh were halved, it would move from being the second poorest country in the world to the thirteenth poorest.

An appropriate goal in population would be to aspire to the time when all the peoples of the world could exercise the same kind of freedom that we do in the United States in reproductive health. Unless we continue to work on this problem, I am afraid the opposite could

become true, and most of the world's population could find itself in bondage to uncontrolled, and often unwanted, fertility.

The global support that has been generated in the last 2 years for the child survival effort is heartening. Recent new commitments for this goal include:

- $100 million from Italy donated to UNICEF for immunization activities in Africa
- $25 million from Canada for immunizations in commonwealth countries.
- $10 million from Spain for immunizations in Central American countries.
- $120 million from Rotary International for polio immunizations worldwide.
- $3 million from LIVEAID donated to UNICEF for immunization activities in Africa.
- The UNICEF country committees in Europe are mounting a campaign to raise $100 million for worldwide immunizations against measles.

The Pan American Health Organization announced on May 14, 1985, a campaign to eliminate polio from the Western Hemisphere by 1990. The additional support needed for this program has already been pledged by the Inter-American Development Bank, Rotary International, and the U.S. A.I.D.

External contributions for Third World immunization programs must be viewed in the context of the total cost of such programs. There is a paucity of good data on the actual expenditures for immunization programs in developing countries which makes it difficult to determine

the total cost with precision. One estimate, developed for the Bellagio meeting in 1984, indicated that a program for the 10 countries (excluding China), accounting for two-thirds of the total deaths in the world due to vaccine-preventable diseases, would need to reach approximately 40 million infants per year (at a maximum cost of $15.00 per infant) and approximately 40 million pregnant women (at a maximum cost of $3.50 per woman), giving a total maximum cost of approximately $745 million a year. If the target is doubled to 80 million children a year (78.5% of all newborns in the Third World, excluding China), the cost estimate becomes $1.5 billion per year.

One exceedingly important finding consistently emerging from a number of studies is that when costs are broken down by the source of funds, developing countries themselves have assumed and continue to assume the major proportion of the costs, approximately 80% of the total. External funds will be needed to support only one-fifth of the total costs, or approximately $150-300 million per year.

There are heartening indicators that the Third World is committing itself to the Child Survival effort. In Colombia, El Salvador, Burkina Faso, Senegal, Turkey, India, and other countries, heads of states have personally and publicly demonstrated their support in many instances by personally immunizing a child to kick off the program. The political will is being generated.

It is also important to note that recent findings indicate that poor countries can improve their health condition without waiting on major improvements in economic conditions. There is a recent Rockefeller Foundation report entitled "Good Health at Low Cost". The authors of that report state "a guarantee of a long life to nearly everyone

cannot wait the attainment of global affluence. It now appears that it does not have to."

The following excerpt from the preface of the report makes the case succinctly:

". . . number of poor societies, Kerala State, Sri Lanka, China and Costa Rica for example, have achieved mortality levels close to those of the industrialized countries. The first three did this in spite of annual per capita incomes which are still around only $300. Each added 15-20 years to its expectation of life at birth in little more than 2 decades.

This immense improvement in their social situations was largely carried through by their own efforts. It is particularly exciting because there appears to be a common pattern. Central to that pattern was a strong political and popular commitment to extending good health to all, so that the effort had a high profile, involved widespread participation, and had some of the aspects of a crusade. The effort was not dirt cheap, but it did not so distort the economies of these countries as to render the attainment of other desired ends impossible.

Other common, and perhaps essential, elements were an equally strong commitment to education for all and for guaranteeing that even the most underpriviliged secured an adequate diet. The programs were broadly based and employed all available health technologies, at least those that could be afforded.

. . . There is an available model. However, that model cannot be quietly accepted as a health priority. The community has to feel strongly and even righteously about the desirability of the ends and

the high priority in effort that they should be awarded. It is clear that this feeling must have as a fundamental element a strongly held commitment to equity, or at least to a satisfactory minimum level for all, of health services, food and education.

It also appears to be probable that the effort need be sustained at its maximum only during the period of rapid mortality decline. Thereafter, there can be some relaxation in effort and expenditure, while other goals are pursued, without a rise in mortality levels."

The APHA is particularly appreciative of the efforts by Congress to establish the Child Survival Fund in the Agency for International Development. We are also encouraged that for 1987, the Administration has retained this fund in its budget request. It is rather disturbing to note, however, that funding is not proposed commensurate with the indicated importance of the effort. The proposed reduction in funding for the general international health account is likewise, ill advised in our opinion. We believe that the funds appropriated for health should be at least $200.8 million, the same as last year. We also believe that Congress should add funds to the Child Survival Fund to sustain its efforts and continue to concentrate on the most needy segments of our population, mothers and children. Therefore, we believe funding for the Child Survival Fund should be increased to $75 million to help meet this crucial need. This level of funding will also provide needed resources for the proposed Universal Child Immunization Act which would fund initiatives in developing countries aimed at fully immunizing children against killing diseases. Finally, APHA believes that the AID population account should be funded at least at the $290 million level. AID's population activities effectively promote and deliver family planning programs around the world.

There are many reasons for supporting these programs. First, of course, it is the ethical thing to do. The disparity between the health status of the developing world and the developed world, should be an intolerable burden on the conscience of the developed world. A child born in India today is 10 times more likely to die in the first year of life than a child born in the United States. Developed nations spend more money on health care than the poorest half of the world spends on all items.

Aside from the moral imperative, there are direct benefits to the U.S. Smallpox eradication is a good example. U.S. economic benefits from the elimination of smallpox were very direct. The United States spent approximately $150 million a year to keep smallpox out of this country during the 1960s, despite the absence of cases in the United States since 1949. An investment of approximately $27 million over a 12-year period helped achieve global eradication. This means that the United States is recovering its investment every 3 months at the present time and will continue to do so forever. Because of smallpox eradication, the United States now saves more money each year than we invest in the World Health Organization.

Smallpox is a unique example, perhaps. But, there are other situations in which the United States has a direct vested interest in what happens in the rest of the world. The last outbreak of polio in the United States was directly traceable to cases abroad. Imported measles cases are a continuing threat to the outstanding control program in this country.

The mid-1980s mark an important point in the primary health care programs of the Third World. They now have momentum. They are showing results. The appropriations before you are important in

maintaining that momentum. In his 1984 report, the Director General of the World Health Organization, Dr. Halfdan Mahler said "The international community is in a mood of crisis management. It has discovered a critical situation in parts of Africa, and its conscience has been aroused. However, there is always the danger that the self-cleansing, self-righteousness of giving to the unfortunate poor will blind the givers to the need for more fundamental, long-term solutions." The request before you represents an opportunity to make an important contribution to those long-term solutions.

Finally, I would like to speak to three additional matters. The first has to do with the question of adequate staffing in AID, the Centers for Disease Control and other Federal agencies who will have the responsibility for carrying out these important programs. The monetary support which we have talked about is all important, of course, but if the Federal Government is to exercise adequate stewardship of these monies, and carry-out its responsibilities in connection with these programs, it must have adequate staff to do so. With across the board cuts in positions in Federal Agencies, we fear that these programs are now seriously short of the personnel needed to do their work. We urge the committee to take appropriate measures to insure that adequate Federal staffing is provided.

Second, I would hope that AID would give special priority to the health needs in Africa. Our assistance there in famine relief and development are commendable. But, often the health needs get second priority simply because other needs are so great and so visible. We are talking about the neediest of the needy in many countries in Africa. But, it does not necessarily follow that health needs have to get in line behind other assistance. With adequate staff and attention, progress in health can take place simultaneously.

Lastly, APHA is very concerned about the cuts being proposed in the U.S. contributions to the international agencies involved in health. Such agencies as the World Health Organization, the Pan American Health Organization, UNICEF, United Nations Development Programme, have an exceedingly important role in the successful pursuit of international health goals, often a lead role. It would be short-sighted indeed to cripple these agencies who are in effect our partners in this important work.

Thank you for providing the American Public Health Association with this opportunity to testify today.

TABLE 1
INFANT MORTALITY RATES * FOR 130 COUNTRIES

INFANT MORTALITY	NUMBER OF COUNTRIES	
	1960	1983
200 AND OVER	14	0
150–199	45	11
100–149	25	33
50–99	22	32
25–49	16	19
UNDER 25	8	35
TOTAL	130	130

*DEATHS UNDER 1 YEAR OF AGE PER 1000 LIVE BIRTHS.

SOURCE - STATE OF THE WORLD'S CHILDREN 1986, UNICEF

TABLE 2

LIFE EXPECTANCY AT BIRTH FOR 130 COUNTRIES

LIFE EXPECTANCY	NUMBER OF COUNTRIES	
	1960	1983
LESS THAN 35 YEARS	10	1
35-39	24	1
40-44	21	16
45-49	16	14
50-54	10	18
55-59	10	10
60-64	10	12
65-69	16	16
70 OR MORE	13	42
TOTAL	130	130

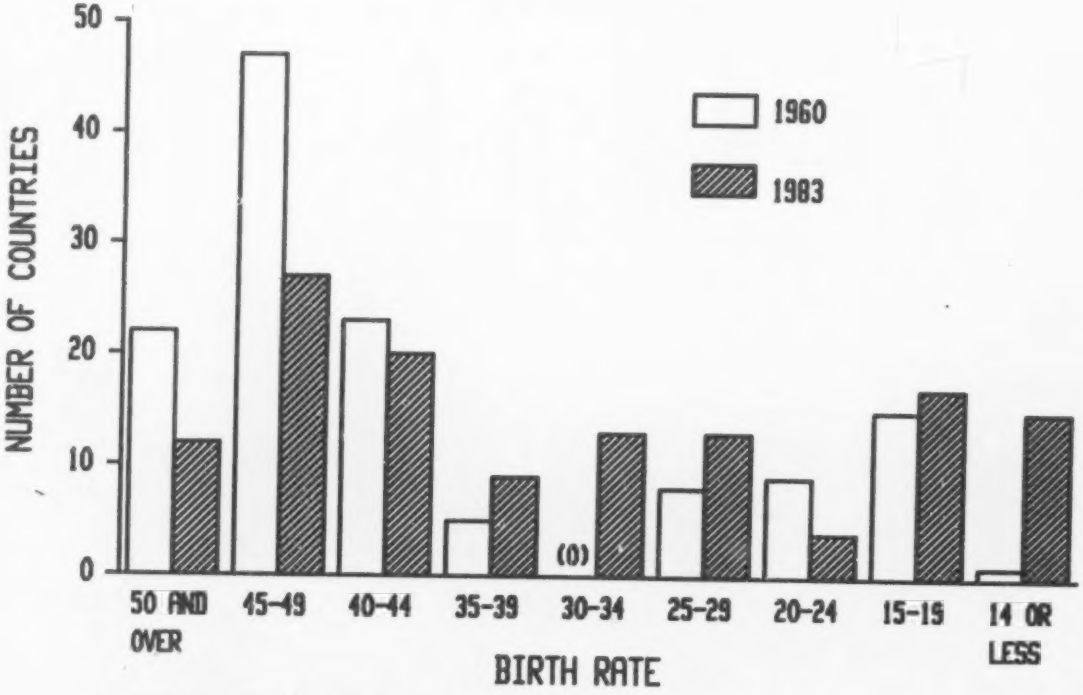
SOURCE - STATE OF THE WORLD'S CHILDREN 1986, UNICEF

TABLE 3
CRUDE BIRTH RATES IN 130 COUNTRIES

BIRTHS/1000 POPULATION	NUMBER OF COUNTRIES	
	1960	1983
50 PLUS	22	12
45-49	47	27
40-44	23	20
35-39	5	9
30-34	0	13
25-29	8	13
20-24	9	4
15-19	15	17
14 OR LESS	1	15
TOTAL	130	130

SOURCE - STATE OF THE WORLD'S CHILDREN 1986, UNICEF

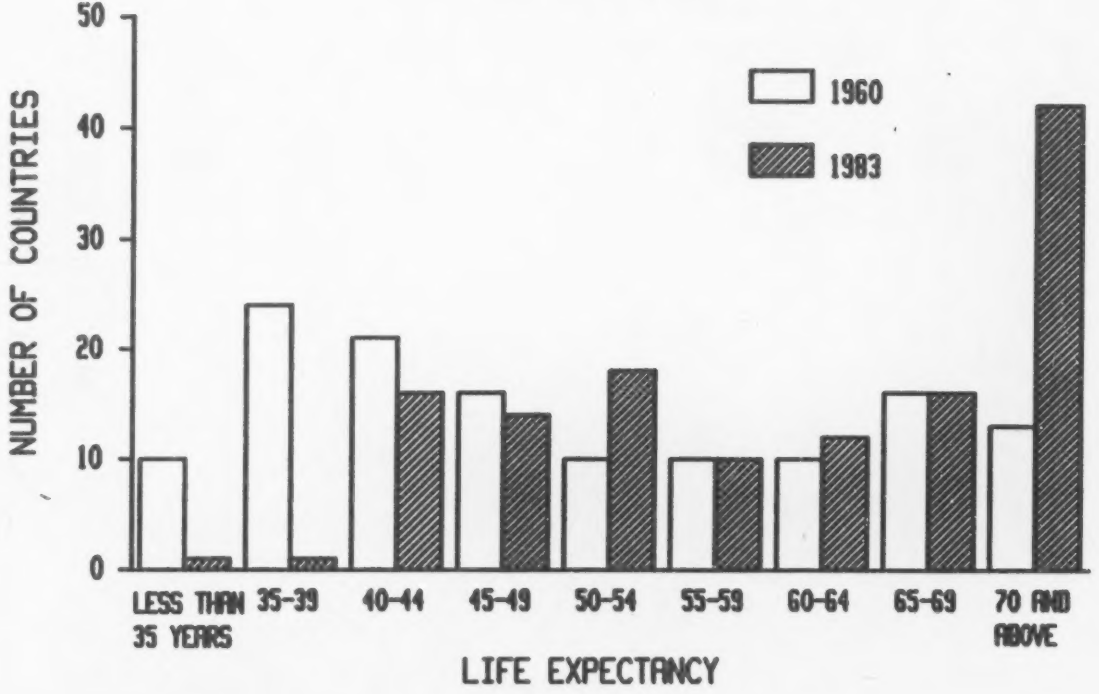
CRUDE BIRTH RATES* IN 130 COUNTRIES 1960 AND 1983



*BIRTHS PER 1000 POPULATION

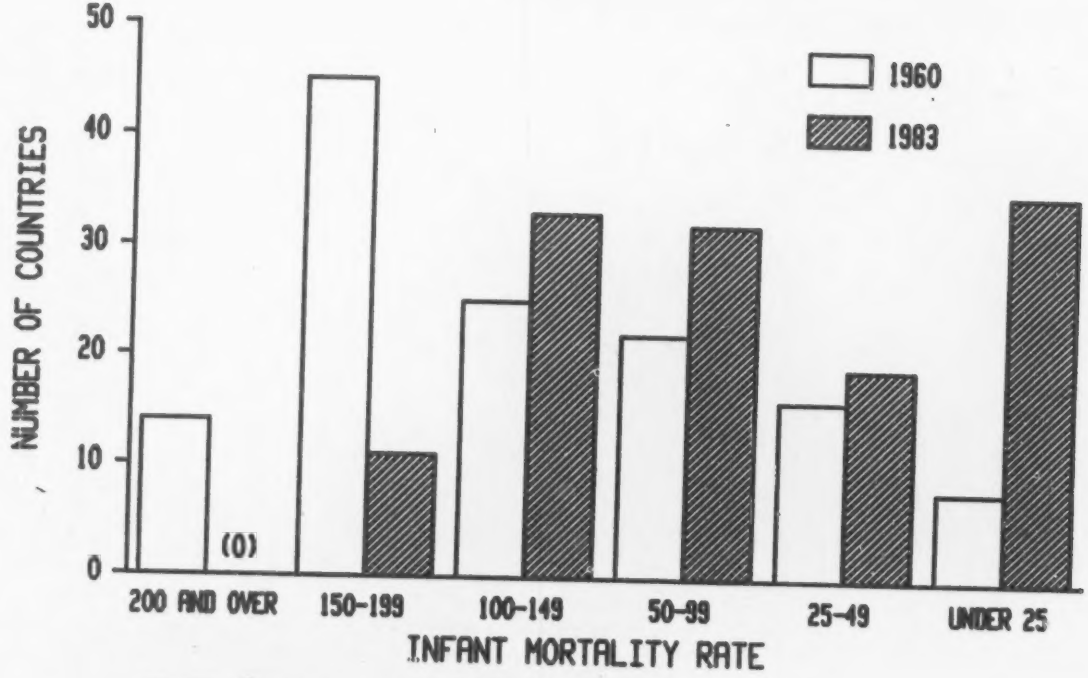
SOURCE: STATE OF THE WORLD'S CHILDREN 1986, UNICEF

LIFE EXPECTANCY AT BIRTH IN 130 COUNTRIES 1960 AND 1983



SOURCE: STATE OF THE WORLD'S CHILDREN 1986, UNICEF

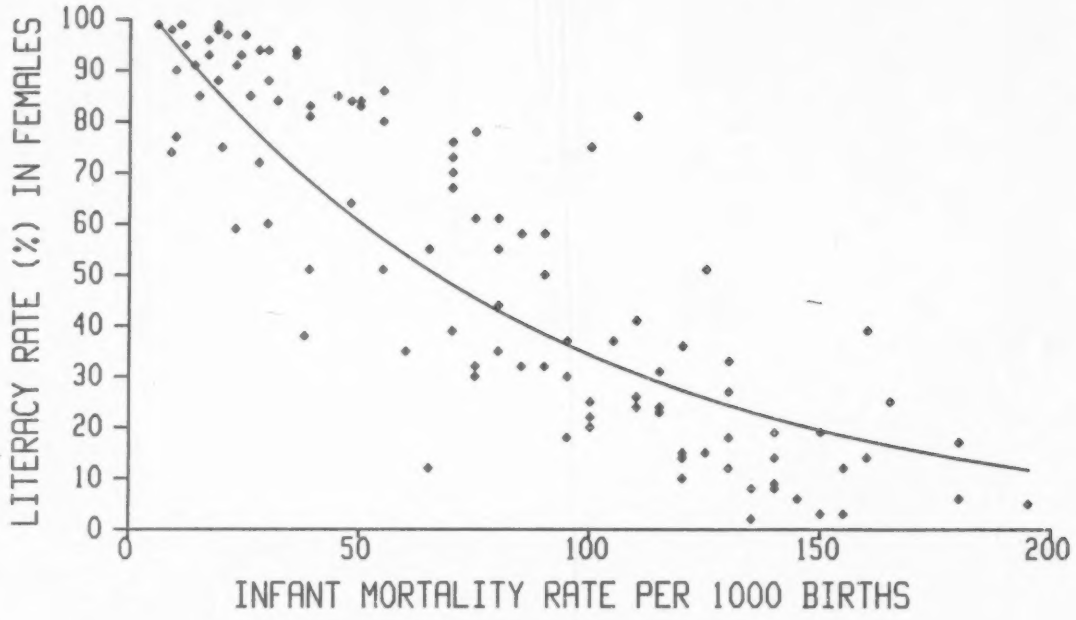
INFANT MORTALITY RATES* FOR 130 COUNTRIES 1960 AND 1983



*DEATHS UNDER 1 YEAR OF AGE PER 1000 LIVE BIRTHS.

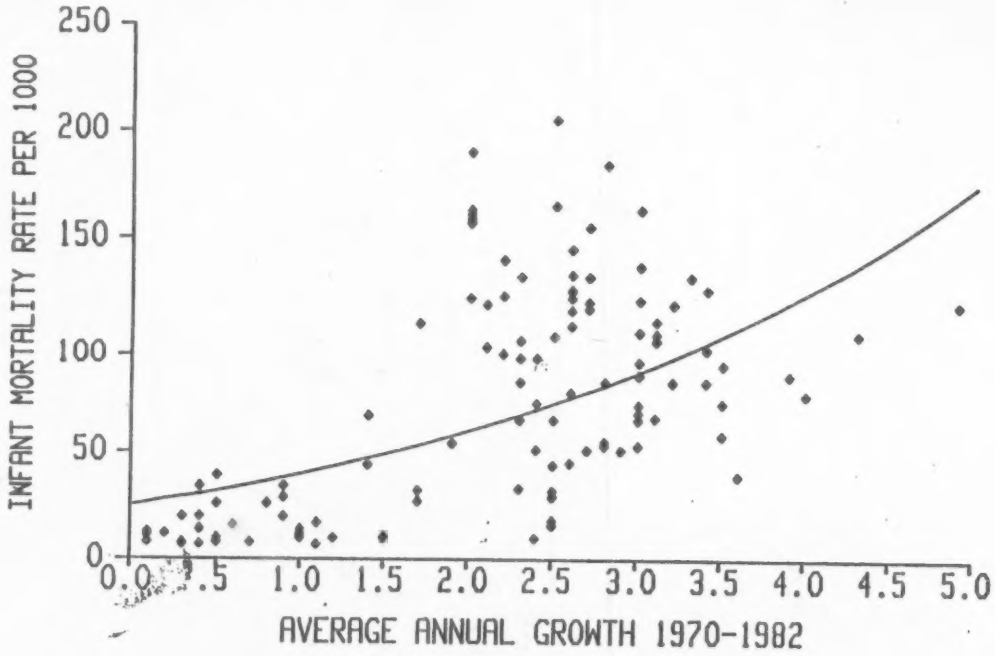
SOURCE: STATE OF THE WORLD'S CHILDREN 1986, UNICEF

RELATIONSHIP BETWEEN LITERACY RATE IN FEMALES AND INFANT MORTALITY RATE FOR 106 COUNTRIES



BEST FIT NON LINEAR CURVE $y=94.150e^{-.011X+.165}$

FIG. 2 - RELATIONSHIP BETWEEN INFANT MORTALITY RATES (1982) AND AVERAGE ANNUAL GROWTH (1970-1982) FOR 118 COUNTRIES



BEST FIT NON LINEAR CURVE $y=3666.39e^{.306x-4.596}$

Senator KASTEN. We thank you for your testimony. As I am sure you are aware, this subcommittee has been at the forefront of the efforts that you outlined here, particularly the Child Survival Fund.

I think that the charts, and the way that you have been able to display some of these relationships will be helpful to the committee in its deliberations.

Mr. WATSON. Thank you, sir.

Senator KASTEN. As everyone understands, we are under tough budget constraints, and we are going to have to work within those guidelines. We thank you very much for your testimony, and we look forward to working with you.

Mr. WATSON. Thank you very much.

Senator KASTEN. Our next witness is Ms. Judith Swartz of the Foundation for the Peoples of the South Pacific, Inc. Ms. Swartz, welcome.

FOUNDATION FOR THE PEOPLES OF THE SOUTH PACIFIC, INC.

STATEMENT OF JUDITH SWARTZ, ON BEHALF OF THE FOUNDATION FOR THE PEOPLES OF THE SOUTH PACIFIC, INC.

Ms. SWARTZ. Thank you, Mr. Chairman.

I have a statement for the record, which I would like to submit, but I would like to summarize that at this time. I would also like to follow up on what Mr. David Guyer said from Save the Children, and the representative from CARE.

We, the Foundation for the Peoples of the South Pacific, are what would be called a smaller agency, and cuts that are happening at AID do severely affect our programs in that we work only in one region of the world, which is the South Pacific. I would just preface my remarks with that statement.

If there is one policy that distinguishes this administration more than any other, we believe it is the fact of the private sector. It is a conviction that volunteers, voluntary agencies, nonprofit groups supported by the generosity of the American people are the ideal means of solving problems. This is exactly what the United States has been doing to assist the South Pacific nations since the late 1970's.

We have something going on in the South Pacific which we believe is unique in the whole world of foreign assistance, and that is a unique partnership between the USAID, the Peace Corps, and private voluntary organizations like ourselves. In addition to the Foundation for the Peoples of the South Pacific, other organizations working in the region include Catholic Relief Services, the YMCA, Save the Children, American ORT, Helen Keller International, International Human Assistance programs, and Agricultural Cooperative Development International.

The partnership between these organizations and AID throughout the South Pacific Islands has enabled us to reach the village level where 85 percent of the people live. We work with women's groups. We grow food. We install freshwater tanks, water-sealed toilets, promote better nutrition, and help small entrepreneurs.

One example of our work is a cooperative effort that we have had with USAID and the Agricultural Cooperative Development International and the small island nation of Tonga in the South Pacific.

With a very small amount of USAID investment, FSP and ACDI have been able to trigger a major boat building and fishing crew training program with the Peace Corps and the Government of Tonga. FSP and the Peace Corps volunteers have helped the Government of Tonga to train boat builders, extension staff, and local fishermen.

As the fishermen crews were trained and began operating, ACDI helped to establish the logistics for transportation and marketing of fish. Now this relatively tiny program has mushroomed into a large multimillion-dollar national effort, supported by UNDP, FAO, UNICEF, the Japanese Government, and the European Economic Community.

In another few months, we will have about 60 boats and 60 trained Tongan fishermen, making some money out in Tonga, and they will be virtually self-sufficient in fish.

Senator KASTEN. Don't give them fish, teach them out to fish.

Ms. SWARTZ. Right, exactly, that is our philosophy.

We do feel that this is development, and we feel that this is self-help entrepreneurship. We feel that this is making the aid dollars of the American people cost effective to the highest degree.

This is the kind of foreign assistance we feel Congress wants to see continued, but we need your help to guide the administration as it wrestles with its ever diminishing financial resources.

Here we have in the South Pacific one of the most exciting cost effective partnership with the private sector in the entire spectrum of foreign assistance programs, we believe, but this partnership is threatened. The minuscule 1985 USAID private voluntary agency co-financing budget of $3.5 million was cut to $1.4 million in 1986, and frozen at this tiny level for 3 years, 1986, 1987, and 1988.

This is a cut of nearly 70 percent, which we feel is possibly the deepest cut of any AID program in the world, and we are very concerned about that. In addition, no Child Survival Funds have been appropriated for the South Pacific in spite of some very high infant mortality rates, particularly in Papua, New Guinea, and other Malayo-Polynesian countries.

In addition to this, you are probably aware of the recent Heritage Foundation report which has published a major paper warning the United States that it is in danger of alienating the South Pacific nations through neglect and failure to meet the expectations of allies who proved their love for us in World War II.

Also, the Wall Street Journal and the New York Times have recently published articles citing growing dissatisfaction among Pacific Islanders over U.S. policy toward the region, and concern over increased Soviet activities there.

To us it has been perplexing that if this is a concern that it would be met by cutbacks in funding to what have been the most cost effective vehicles for generating goodwill and development in the South Pacific, namely, the private voluntary organizations.

Mr. Chairman, we sincerely hope you and your colleagues will not let this happen. We are seeking a restoration of the $2 million reduction in the PVO-cofinancing line item in this year's budget. Also important, we ask that you include report language requiring that in the South Pacific budget for fiscal year 1987, at least $3 million be added to the currently budgeted $1.4 million for these important partnership programs between USAID and private voluntary organizations.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Swartz follows:]

PREPARED STATEMENT OF ELIZABETH B. SILVERSTEIN

PRESIDENT

THE FOUNDATION FOR THE PEOPLES OF THE SOUTH PACIFIC

Mr. Chairman, members of the subcommittee:

I am Judith Swartz testifying on behalf of Mrs. Elizabeth Silverstein, president of the Foundation for the Peoples of the South Pacific, a New York-based agency. I would like to thank you for giving us the opportunity to testify today.

Mr. Chairman, I have here prepared testimony which, with your permission, could be inserted in the record. I would be prepared to summarize our concerns at this time.

Mr. Chairman, if there is one policy that distinguishes this administration more than any other is, its belief in the private sector. It is the conviction that volunteers, voluntary agencies, nonprofit groups supported by the generosity of the American people are the ideal means of solving problems.

This is exactly what the United States has been doing to assist the South Pacific nations since the late 1970's. We have something going in the South Pacific which is unique in the whole world of foreign assistance: A partnership between the United States Agency for International Development, the Peace Corps and private voluntary organizations like ourselves, Catholic Relief Services, the YMCA, Save the Children, American ORT, Helen Keller International, International Human Assistance Programs, and Agricultural Cooperative Development International which is supporting programs throughout the Pacific island nations at the village level where 85 percent of the people live. We work with women's groups, grow food, install freshwater tanks and water-sealed toilets, promote better nutrition, and help small entrepreneurs. We have had an extraordinary partnership between USAID, ACDI, our own organization, FSP and the Government of Tonga. With a very small USAID investment through FSP and ACDI, we have been able to trigger a major boatbuilding and fishing crew training program with the Peace Corps and the Government of Tonga. FSP and Peace Corps volunteers helped the Government of Tonga train boatbuilders, extension staff and local fishermen. As the fishermen crews were trained and began operating ACDI helped establish the logistics for transportation and marketing of fish.

Now this relatively tiny program has mushroomed into a multimillion-dollar national effort supported by UNDP, FAO, UNICEF, the Japanese Government, and the European Economic Community.

In another few months we will have 60 boats and 60 fully trained Tonga fishing crews making handsome profits by supplying fish to the Tonga towns and Tonga will be virtually self-sufficient in fish.

This is real development. This is exciting self-help entrepreneurship. This is making the aid dollars of the American people cost-effective to the highest degree.

This is the kind of foreign assistance I am sure this Congress wants to see continued. We need your help to guide the administration as it wrestles with ever-diminishing

financial resources. Here we have in the South Pacific the most exciting cost-effective partnership with the private sector in the entire spectrum of foreign assistance programs, literally.

The minuscule 1985 USAID private voluntary agency cofinancing budget of $3.5 million has been cut to $1.4 million and frozen at that tiny level for the 3 years 1986, 1987, and 1988. A cut of nearly 70 percent possibly the deepest cut of any aid program anywhere in the world.

As you are well aware, the heritage foundation had published a major paper warning the United States that it is in danger of alienating the South Pacific nations through neglect and failure to meet the expectations of allies who proved their love for us in World War II.

The Wall Street Journal also just 4 weeks ago on March 5 devoted its lead front page article to the South Pacific nations with the banner headlines quote: "Restless Region/Long Ignored as Safe/South Pacific Islands Now Vex Washington/A Troubled Area Is Resentful Over U.S. Fishing Policy/French Tests of Weapons/The Russian Bear Is Flirting." At the same time the New York Times of Tuesday, April 8, just 2 days ago, is warning us and I quote: "Soviet seeks a larger role in Southeast Asia." The article goes on to describe what Soviet Ambassadors are doing in Palau, Kiribati, Vanuatu. The Times could have added the key nation of Fiji as I know from a personal visit to the Prime Minister just 4 weeks ago.

Mr. Chairman, we sincerely hope you and your colleagues will not let this happen. We are seeking a restoration of the $2 million reduction in the PVO-cofinancing line item in this year's budget . . .

And as important, by including report language requiring that in the South Pacific budget for fiscal 1987 at least $3 million be added to the currently budgeted $1.4 million for the partnership programs between USAID and private voluntary organizations.

Thank you, Mr. Chairman. I will be happy to answer any questions.

Senator KASTEN. Thank you very much.

I didn't understand, and I am trying to find my place in your testimony in which you said that the dollars for this region——

Ms. SWARTZ. I am not sure if you have this latest one, which was sent down this morning, you might not have it. But the total amount for PVO-cofinancing, which is one part of the regional budget of AID for the South Pacific, has been cut from $3.5 million to $1.4 million, which is a $2 million cut. It seems very small, but it is quite large in proportion to work that people are doing out there.

Senator KASTEN. It may be that one of the countries involved now has picked up some of the responsibility. Let us review that, and if you could maybe run a Xerox of the latest testimony.

Ms. SWARTZ. I sent 10 down by Federal Express, but I am not sure that you have it.

Senator KASTEN. Then, fine, I just want to be sure that we have the same numbers that you do as we try to reconcile this. We thank you very much for your testimony. We appreciate your appearing and we look forward to working with you.

Ms. SWARTZ. Thank you very much.

Senator KASTEN. Our next witness is Mr. Orhan Suleiman. Mr. Suleiman is the president of the Maryland American Turkish Association, Inc.

MARYLAND AMERICAN TURKISH ASSOCIATION, INC.

STATEMENT OF ORHAN H. SULEIMAN, PRESIDENT, MARYLAND AMERICAN TURKISH ASSOCIATION INC.

CYPRUS QUESTION

Mr. SULEIMAN. Thank you, Mr. Chairman. It is indeed an honor, hopefully, to give you an insight into a perspective that hasn't been given much attention in recent years.

One of the annual stumbling blocks, it seems, regarding aid to Turkey is the Cyprus question. Turkey is always portrayed as having imposed its will upon a defenseless Cyprus. The Cyprus problem did not begin with Turkey's intervention in 1974, for Turkish Cypriots, it marked the end of the problem. Let me recount my own personal experiences, hoping that it will provide you with some insight.

As a youth, at the age of 10, I lived in the village of Lefkara near Larnaca, Cyprus, for a 2-year period, 1958 and 1959. Born in the United States, I experienced the preindependence days of the Republic of Cyprus, another British colony about to be granted independence. No euphoria here, but terrorism as we know it today, bombs exploding, and people being killed.

This independent Republic of Cyprus was doomed from the beginning, not because a delicate constitution had been established based upon the novel concept of bicommunalism between the Greek and Turkish communities, not because this constitution guaranteed an ethnic Greek president, and an ethnic Turkish vice president, not because both Greece and Turkey were allowed to maintain military troops on the island to protect their respective peoples, but because the Greek Cypriots did not act in good faith.

The claim for Enosis, union with Greece, was, is and, as far as Turks are concerned, will always remain an objective for the Greek Cypriots until convinced otherwise. Why should the Turkish Cypriots suspect otherwise?

Three years after independence, we have Cyprus's first president, Makarios, an archbishop of the Greek Orthodox Church, proposing 13 amendments to this constitution. Thirteen amendments, not the Bill of Rights, but the Bill of Death, which were legally rejected by the Turkish Cypriots, but ultimately precipitated the crisis which you know as Cyprus. There was no good faith then, and you wonder why Turks today question the intent of the Greek Cypriots today?

Lefkara was a mixed village. It had Greeks, who were in the majority, and approximately 400 Turks. The Cypriots were Greek and Turkish first, Cypriot second. Cypriots don't live on Cyprus. Greeks and Turks do, they always did. Cyprus belonged to Turkey from 1571 to 1878, leasing it to the British, and ultimately losing it outright when the British declared war on Turkey in World War I.

After I returned to the United States with my family, independence was granted in 1960. Then, in 1963, the Turkish villagers of Lefkara left in mass exodus. Three hundred and sixty-one Turks from the village of

Pano Lefkara became refugees in the all Turkish village of Gecitkale. This was not an isolated event but occurring over the entire island. The Greeks had started a campaign of systematic terror and murder, genocide if you will. This was December 1963, 11 years before Turkey eventually acted. The intervening 11 years were hell for Turkish Cypriots.

In 1967, my grandmother, Meyrem Suleyman, was killed when the Greeks surrounded the village and attacked. Once again Turkey threatened to intervene, as was her right, and once again U.S. pressure prevented her. From 1967 until 1974, the Greeks became more sophisticated. They would do economically what they had failed to do by force– strangle and eliminate the Turkish community from Cyprus. I was convinced of this, and quite saddened by what seemed inevitable.

During the years since independence, the Greeks controlled everything. I remember visiting Cyprus in 1973. Highways and the airport had English and Greek signs, but nothing in Turkish. My sister and I spoke Turkish, only to be denigrated by the Greeks, as if Turkish were some sort of profanity.

Discrimination was rampant. To this day, my empathy for the American civil rights movement traces back to that experience. I learned what it was like to be treated as a second-class individual, without any recourse. Turkish cabs were not allowed at the airport, and Greeks would not drive passengers to Turkish destinations. The economic boycott was complete. I remember discovering that my Greek cab driver was really Turkish, "If they knew I was Turkish, I wouldn't be allowed to pickup passengers at the airport."

I will spare you the details of the events in 1974 leading to Turkey's legal intervention on behalf of the endangered Turkish Cypriots, but I recall observing that Turkey went to great efforts to convince Britain, a fellow guarantor, to intervene with her, to convince the Greek Junta to withdraw, to investigate any and all options before resorting to her last remaining one.

For Turkey not to have acted then would have abrogated her responsibility to the Turkish community of Cyprus. There is no Turk living today that does not believe that if Turkey had not intervened it would have been the beginning of the end of the Turkish community on Cyprus. The subsequent arms embargo against Turkey would be analogous to a lifeguard, after rescuing a drowning child, to be accused of rape.

But, back to the refugees from Lefkara who went to Kophinou in 1963, and, yes, now to the north in 1974, to Cayirova, north of Famagusta, they and the victims preceding them are the real victims of Cyprus. Even in 1974, my wife's relatives lived in the village of Tokhni, another mixed village in the south. When the fighting broke out, the Greeks approached the Turkish villagers and said, "We have lived together all this time, put down your arms and let Turkey and Greece do the fighting."

Unlike the Turks of Lefkara, the Turks of Tokhni believed them, and they were massacred. Today, the resettled village in the north is known as the "Widows' Village," and you wonder why there is so much distrust of the Greeks?

When I last visited Cyprus in 1980, I asked my aunt if it was worth it, the stress, the relocations, the loss of one's native village, the hardship. Her sincere reply, "It has been hard, but we have peace of mind. We do not fear for our lives any more. I prefer this."

The Turkish armed forces protect the Turkish Cypriots as American forces protect our European allies. This feeling is very deep in Turks today. Do not underestimate it. The Turks are honorable people, as anyone knows who has dealt with them. I find it ironic that the Turks, who historically as the Ottomans, allowed ethnic peoples to maintain their culture, their religion, their ethnic identities, today are victims of descendants of these very people. If the Turks had been the true barbarians that the Christian West has portrayed them, then they would have assimilated these peoples—culture, religion, language, and all.

The establishment of the Turkish Republic of Northern Cyprus was an effort to force some sort of dialog between the two communities. This declaration was followed by a series of talks which continue today, as you have mentioned earlier about that article in the paper. These efforts may yet succeed, but the Turkish Cypriots could simply have chosen to wait this crisis out, if their true intent was to establish a separate nation, instead they have demonstrated their willingness to settle the problem through negotiations.

A recent article in the Washington Times of March 27 was headlined "Visit to a Cypriot country that doesn't exist." The author of the article was apparently impressed by the fact that "not one person has been killed" since 1974. Northern Cyprus does exist, and the Turkish Cypriots will not disappear.

The Greeks continue to take a hardline stand against the Turkish Cypriots. Surprisingly, the Greeks do not acknowledge even today, their past wrongs, insisting naively that Turkey must withdraw her troops first, as part of any settlement. Turkey will withdraw in due time, only when sufficient protection is provided for the Turkish Cypriots. For the Greek Cypriots to even consider such a proposal is insulting, unrealistic, and demonstrates an attitude that begs further analysis and arouses suspicion.

The Republic of Turkey, a trusted and loyal American ally, has simply stood by her word. She protects and will continue to protect the Turkish Cypriots from a repetition of past events, there is ample justification for her position.

Thank you.

Senator KASTEN. Mr. Suleiman, thank you very much for your testimony here today.

Our next witness is Mr. Joseph D. Youssouf, the Turkish Cypriot Cultural and Educational Association.

TURKISH CYPRIOT CULTURAL AND EXCHANGE ASSOCIATION

STATEMENT OF JOSEPH D. YOUSSOUF, ON BEHALF OF THE TURKISH CYPRIOT CULTURAL AND EDUCATIONAL ASSOCIATION

CONDITIONS ON CYPRUS

Mr. YOUSSOUF. Thank you very much for the opportunity to appear here today.

I would like to insert in the record in complete detail the statement that was previously submitted to the subcommittee, but rather than repeat that or read that statement, what I would like to do is highlight what I consider to be some relevant and relatively important points for your consideration regarding the very important area of U.S. assistance to Turkey.

Since 1974, conditions in Cyprus have been the focal point of Greek-American efforts to convince Congress to curtail U.S. aid to Turkey. I would like to state at the outset that today, unlike Mr. Manatos and Mr. Lomis, who didn't appear today, but who did appear in front of the House subcommittee, I am not here in an anti-Greek mode. We are not here seeking the Congress reduction of military and economic assistance to Greece. What we are here to do, however, is to speak about the truth and to try to demonstrate why the Greek position is patently unreasonable and contrary to American national security interests.

Once again this year, lobbyists employed by the United Hellenic American Congress, and the American Hellenic Alliance, and the Pancyprian Association of America, have trotted out the same old arguments in support of their request that you curtail aid to Turkey.

The fact is, they have been successful in the past. That fact is evident from a review of statements which were inserted in the Congressional Record by various Congressmen and Senators. For example, Greece and the Greek Cypriots have continuously bemoaned the presence of Turkish troops on Cyprus. On October 1, 1985, 31 Congressmen and 14 Senators called for the removal of those troops in the Congressional Record.

AHIPAC decries the Turkish Cypriot intransigence in the negotiations which have been previously mentioned today, and certain Congressmen and Senators condemn President Denktash for failing to show "goodwill in the negotiations."

Mr. Manatos accuses Turkey of "militarily occupying another country," and a California Congressman condemns Turkey for "invading, occupying, and dividing Cyprus."

The obvious question is why the Congress determined that a united Cyprus is a desirable American foreign policy objective, and why has that objective continuously clouded American policy toward Turkey to lead to reductions in what we consider to be vital economic assistance and military assistance to a very strong and well-proven ally of the United States.

The answer to that question, unfortunately, is that until last year, the Greek lobby, which is very well funded and very well organized, very

effective and very powerful, has had an open field. There has been nobody to present the alternate view.

Unfortunately, what this has led to is mistaken assumptions being made by those in power, the policymakers of this country.

The first mistaken assumption is that the Turkish Cypriots are a minority people. They have always been part of the nation called Cyprus and, therefore, have no right to declare their independence and adopt their own constitution.

I really point out that this assumption is really best addressed by a Greek Cypriot author, Mr. Stavrinides, and that quotation is, I think, relevant to the Senator's consideration.

> It is often inevitable to speak generally of Cypriots, or the people of Cyprus, but such expressions may be a bit misleading if they suggest that the 650,000 souls now living in Cyprus form one people, a nation characterized by a sameness of language, culture, religion or political loyalty.

Without going into the entire quotation, what he basically points out, and this is a Greek Cypriot speaking, is that from the beginning of the Turkish presence on Cyprus, it a bicommunal state, and that means that there are Greeks and Turks on the island who think of themselves as part of larger nations.

Mistaken assumption No. 2, which we think is unduly influencing foreign policy is that the Turkish intervention of 1974 was illegal, and that is repeatedly referred to in the witness statements that you have in evidence.

Interestingly enough, in 1979, a decision issued by the Athens Court of Appeals declared the intervention legal. This is a Greek court ruling on a related matter, and they said that it was legal.

The fact is that the Turkish intervention was necessary to protect the Turkish Cypriots from immediate peril as described by Mr. Suleiman who preceded me. The fact is that, under any stretch of the imagination, there is no justification for punishment of Turkey by reduction of necessary aid because of its action on Cyprus.

Finally, Turkey is presumed to have manipulated Turkish Cypriots to the point of declaring their independence and establishing a new constitution. The fact is that the Turkish Cypriot people have exercised an inherent, internationally recognized right, which we as Americans hold absolutely sacred, and that is the right to self determination.

What they did is decide that tyranny was no longer acceptable, the tyranny described by Mr. Suleiman, in fact, and they took upon themselves the right which the United States certainly holds sacred, which the U.N. Charter permits, which is, they made the determination that they were going to form a new social compact and a new contract.

Finally, I think the most tragic example of the unquestioned power of the Greek lobby has been the cancellation of a trip by aides to various Representatives in the Congress, the trip scheduled to Northern Cyprus.

As we speak today, not one representative in the official capacity of the U.S. Government, or any of its agencies, has visited Northern

Cyprus. The Congressional Record is replete with statements by Congressmen who have in fact gone to the south and spoken to Greek Government officials and Greek citizens, and have talked about the tragedy of Cyprus.

When the Turkish Cypriots invited and arranged a trip, a fact finding trip for congressional aides, there was such a hue and cry raised by the Greek lobby that the trip was ultimately cancelled. Unfortunately, the Greek lobby received the support of the State Department.

It was believed that somehow or other, a fact finding, investigatory trip would jeopardize the U.S. policy vis-a-vis Cyprus, and constitute a de facto recognition of the "illegal Turkish Republic of Northern Cyprus."

Summing it up in simple terms, that is poppycock. It is just not true. The fact is that over 30 British legislators have visited Northern Cyprus, and representatives from France, Italy, and several of the European countries have gone to Northern Cyprus.

I sincerely believe, Mr. Chairman, that if the true facts concerning Cyprus and the Turkish intervention in Cyprus were known, American policy would be substantially different, and that our relationship with Turkey would be enhanced.

Finally, Mr. Chairman, I sincerely believe that our dedication to the rule of law, and to the principles of equal treatment under law and justice would be best served by a recognition of the true state of facts on Cyprus, and not punishing Turkey.

Finally, I would say, the Chair had indicated that it read the New York Times article about the Greek Cypriot reaction to the latest U.N. unity plan. What happened there, Mr. Chairman, was that the third document was prepared and released by Perez de Cuellar last week. The third document forms the basic agenda for settlement of the intransigent Cypriot dispute.

The third document was circulated both to President Denktash and Greek President Kyprianou. Unfortunately, the Times reported today, "President Spyros Kyprianou, the Greek Cypriot leader, has decided to ask for major revisions of the U.N. plans for reunification of Cyprus according to informed Greek Cypriot sources."

The Greek Cypriot position was worked out here in consultation with Prime Minister Andreas Papandreou of Greece, and Mr. Kyprianou returned to Cyprus on Tuesday. Interestingly enough, Mr. Papandreou has a dispatch going to Moscow as well as a Greek Cypriot representative going to Moscow because they view with favor the Russian proposal put forth on Cyprus.

Now, Mr. Chairman, when you compare those facts, which I am not fabricating, to what Mr. Manatos put into the record today about the loyalty and friendship of Greece to the United States, and their intention not to scuttle the talks, this is a question about the validity of that statement in my mind.

I believe that if the Chair has the ability to assign a staff or two to investigate these problems, I think that the conclusion that a dispassionate

and interested observer would make would be the same conclusion that I arrived at and stated on the record.

I certainly appreciate the time, and I know that your time constraints are severe. I will be glad to attempt to try to answer any questions the Chair might have.

Your bearing indicated to me that you deserve the title of judge, and I apologize that this happened, but it is a habit with the practice of law.

[The prepared statement of Mr. Youssouf follows:]

STATEMENT OF JOSEPH D. YOUSSOUF, ESQUIRE, REPRESENTATIVE OF THE TURKISH CYPRIOT CULTURAL AND EDUCATIONAL ASSOCIATION OF THE UNITED STATES OF AMERICA BEFORE THE SENATE SUB-COMMITTEE ON FOREIGN OPERATIONS, APRIL 17th, 1986

Mr. Chairman and Members of the Sub-Committee:

Thank you for giving me this opportunity to appear before the Sub-Committee on behalf of the Turkish-Cypriot Cultural and Educational Association of the United States of America. I sincerely hope that the information contained in this statement will assist this Sub-Committee as it considers the Authorization Bill for Fiscal year 1987 which calls for assistance to Turkey in the amount of $868,000,000.00 and aid to Cyprus in the amount of $15,000,000.00.

Since Turkey's 1974 intervention in Cyprus, representatives of Greece and the Greek-American lobby have consistently opposed continued American foreign assistance to Turkey. They have argued that Turkish intervention in Cyprus was illegal and that Turkey has manipulated the Turkish-Cypriots into declaring their independence, adopting a constitution and holding elections. They have regularly bemoaned the fate of the "people of Cyprus" and portrayed Turkey as an aggressor nation occupying a portion of a sovereign country. Unfortunately, throughout the course of these debates the Turkish-Cypriot people have been unrepresented and silent. As an American of Turkish-Cypriot descent and as a representative of the Turkish-Cypriot community in the United States, I am here to express the truth about conditions on the Island of Cyprus and by stating the truth demonstrate why Turkey should not be punished for its actions on Cyprus as advocated by Greek-American lobbyists.

On November 15th, 1983, the Legislative Assembly of the Turkish Federated State of Cyprus proclaimed the independence of the Turkish Republic of Northern Cyprus. A constitutional commission was convened for the purpose of drafting a new fundamental legal document. On May 5th, 1985 the proposed

constitution was submitted to a general referendum and was approved by 70% of the general electorate participating in the election. Pursuant to the terms of the new constitution, national elections were held on June 23rd, 1985. 88.4% of all persons eligible to vote in the Turkish Republic of Northern Cyprus participated in the election and four major political parties gained seats in the Assembly o the Republic.

A review of the Congressional Record reveals that members of the Senate and the House expressed opposition to and dissatisfaction with the declaration of independence, the constitutional referendum, and the national elections. Various Congressman expressed the belief that Turkey was somehow responsible for these events and raised the spectre of further reductions in military assistance to Turkey as a means of pressuring Turkey and the Turkish-Cypriots to settle the Cyprus dispuste along the lines suggested by the Greek-Cypriots, namely the withdrawal of Turkish military forces and the restoration of the 1960 constitution. Since 1974, Congress has consistently supported a "united" Cyprus and has taken steps to effectuate that objective, such as the arms embargo of 1975 and the artificial and counter-productive 7:10 military aid ratio between Greece and Turkey.

The obvious question is why has the Congress determined that a "united" Cyprus is a desirable and necessary American foreign policy objective. What reasons exist which mandate that the United States must support areturn to pre-1974 conditions on the island? What consideration have those Congressman who opposed the establishment and maintenance of the Turkish Republic of Northern Cyprus given to the rights and desires of the indigenous Turkish-Cypriot population? And how are American interests advanced by opposition to the establishment of a secular, democratic republic and the adoption of a democratic constitution by general referendum in a predominantly Moslem, Middle Eastern Country?

It is respectfully submitted that these questions have not been addressed and that Congressional hostility to the expressed will of the Turkish Cypriot people proceeds from mistaken assumptions and erroneous information disseminated by a well organized ethnic lobby.

The purpose of this paper is to explain why the Turkish Cypriots declared this independence and adopted a new constitution. Secondly, it presents a brief description and analysis of the new constitution and examines the foreign policy implications of these events.

WHY IDEPENDENCE AND WHY A NEW CONSTITUTION

In 1681 John Locke wrote:

> Whenever law ends, tyranny begins, if the law be transgressed to anothers harm; and whosever in authority exceeds the power given him by the law, and makes use of the force he has under his command, to compass that upon the subject which the law allows not, ceases in that to be a magistrate; and, acting without authority, may be opposed as any other man who by force invades the right of another.

The Republic of Cyprus was established in August of 1960. At the time of its creation, it was intended and designed to be a Greco-Turkish, bi-communal republic with two official languages and a sharing of power by both ethnic communities. The 1960 constitution provided for a presidential regime with the president being a Greek-Cypriot and the vice-president a Turkish-Cypriot. The Council of Ministers was to consist of seven Greek-Cypriots and three Turkish-Cypriots. The legislative and judicial branches of the government as well as the civil service were also apportioned between the two communities of Cyprus.

It was widely accepted that if this fragile new republic was to survive, it required a deep dedication to its constitutional principles by those elected officials who swore allegiance to the new constitution when they assumed office. Unfortunately, the new constitution was betrayed by the very men who had pledged to support and enforce its principles.

The first President of the new republic was Archbishop Makarios. On August 16th, 1960, the very day the Republic was inagurated he declared:

> Independence was not the aim and purpose of the EOKA struggle... Foreign factors have prevented the achievement of the national goal. But this should not be a cause for sorrow... New bastions have been constructed and from these bastions the Greek-Cypriots will march on to complete the final victory.

The final victory referred to by the President was union with Greece and the destruction of the Independent Republic of Cyprus.

Archbishop Makarios made liberal use of the Greek-Cypriot schools and the services of the Greek Cypriot-controlled Cyprus Broadcasting Corporation in propagating his hellenistic passion. In Greek-Cypriot schools, children were taught that "Cyprus is Greek and that the Turks are intruders". As for the Greek controlled Cyprus Broadcasting Corporation, it regularly broadcast anti-Turkish plays. In one of those plays, a mother asked her son what he wanted to become when he grew up. He replied "a hero". When she asked him "what will you bring us" he answered "I am going to bring you seven Turkish heads ."

It is clear that the Greek-Cypriot leaders never abandoned their goal of "ENOSIS" or union with Greece, even though they knew that this goal was expressly prohibited by the Zurich-London Accords of 1959 and the 1960 constitution.

By December of 1963 the Republic was shattered by inter-communal violence directed against the Turkish population by former EOKA terrorists. Between 1963 and 1974 the Turkish population of Cyprus was systematically deprived of basic constitutional and civil rights. The Turkish population was impoverished by an economic blockade, deprived of participation in the civil service, and repeatedly subjected to armed assaults. The final act in the tragedy of the Republic of Cyprus was played on July 15th, 1974 when a coup-de-etat, planned and staged by the military junta then ruling Greece, installed as President of

Cyprus a self-proclaimed terrorist, Nikos Sampson. It was very clear to the Turkish population that they were in immediate peril.

Fortunately for the Turkish poplulation of Cyprus, the government of the Republic of Turkey intervened on July 20th, 1974. This intervention, which has been erroneously classified as "illegal" was in fact carried out pursuant to a valid existing international treaty which had been signed by Greece, Turkey and Great Britain.

Between 1974 and 1983 the search for a formula to end the Cyprus conflict continued to no avail. Greek-Cypriots have continuously demanded the removal of Turkish troops from the island and a return to pre-1974 conditions. Turkish-Cypriots, on the other hand, do not want a return to the conditions of 1974 and fear for their safety and welfare should the Turkish military presence be removed.

Finally, on November 15th, 1983, after years of frustration the Legislative Assembly of the Turkish Federated State of Cyprus proclaimed its national independence. In very simple terms, the Turkish Cypriot Declaration of Independence recognized and formalized a long established political and social reality, the seperate existance of a Turkish nation on Cyprus. In his 1975 book entitled The Cyprus Conflict, the Greek Cypriot author Zenon Stavrinides described this reality as follows:

> It is often inevitable to speak generally of "Cypriots", or "the people of Cyrpus", but such expressions may be a bit misleading if they suggest that the 650,000 souls now living in Cyprus form one people, a nation characterized by a sameness of language, culture, religion or political loyalty. If these commonly accepted criteria of nationhood are applied to the people inhabiting Cyprus, they will have to be divided into different national or ethnic groups. The crucial point, however, is that the two main ethnic groups which are to be found in the island are thought of by their members as being not "self-contained" Cyprus based nations, but integral parts of larger nations. Traditionally at least, 80 per cent of the Cypriots have been very conscious of their Greek language, Greek culture and history, and Greek Orthodox religion; and these things make them not Cypriots who just happended to have had Greek origins, but Greeks living in

> Cyprus, and as such members of the larger Greek nation. Analogously, 18 per cent have thought of themselves as Turks living in Cyprus, and members of the larger Turkish nation. Thus, although Andreas and Ali may be natives and residents of Cyprus, and regard the island as their common homeland, they do not normally regard themselves as compatriots, but rather as neighbors.

Given these realities, it is clear that Turkish Cypriot nationhood was the logical outcome of historical trends and events which date back to at least 1571 when the Ottoman Turks wrested Cyprus from Venice.

In 1762 Jean Jacques Russeau declared:

> There is but one law which by its nature requires unanimous consent, that is, the social compact; for civil association is the most voluntary act in the world; every man being born free and master of himself, no one can, under any pretext whatever, enslave him without his assent.

The Turkish-Cypriots exercised their inherent right of self-determination in 1983 when they declared their independence. They decided that they could no longer accept inferior political and social status in their homeland. They decided that a new social compact was necessary and desirable: a new fundamental organic law was required, freedom and democracy were essential and tyranny, unbearable.

WHAT TYPE OF GOVERNMENT DOES THIS NEW CONSTITUTION DEFINE?

In his 1974 book, The Emerging Constitution, Rexford G. Tugwell defined the purposes of a constitution as follows:

> They (constitutions) establish a government, make a more or less complete statement of purposes (a preamble), a brief but specific indication of its structure; they provide an indication of powers and their distribution among officials, together with a statement of rights given to and duties expected of citizens. So a constitution is not only a profession of intention by its people, but also a guide for the governing and the governed.

The Constitution of the Turkish Republic of Northern Cyprus clearly satisfies these criteria.

Article 1 of the Constitution declares that the Turkish

Republic of Northern Cyprus is a "Secular Republic". It establishes a tripartite form of government similar to the republican form of government created by the United State Constitution of 1787. The legislative power is vested in an Assembly of the Republic, the judicial power is vested in a system of "independent courts" and executive duties are entrusted to a President of the Republic and Council of Ministers.

Article 7 of the Constitution proclaims the supremacy and binding force of the constitution by mandating that no law adopted shall be "contrary to or inconsistent with the constitution". Of prime interest and conern to Americans should be Article 8 which unequivocally states:

> (1) Every person shall be equal before the Constitution and the law without any discrimination. No privileges shall be granted to any individual family, group or class.
> (2) The organs and administrative authorities of the state are under an obligation to act in conformity with the principal of equality before the law and not to make any discrimination in their actions.

Unlike the American Constitution which required amendment to include the Bill of Rights, Part Two of the Constitution of the Turkish Republic of Northern Cyprus establishes and defines certain fundamental rights, liberties and duties. Article 10 (1) states:

> "Every person has, by virtue of his existence as an individual, personal fundamental rights, and liberties which cannot be usurped, transferred or renounced".

Article Fourteen guarantees every person the right to live in peace, security and tranquility and proscribes torture and punishment which "is incompatible with human honor and dignity.

Article 17 requires that every person shall

> "in the determination of his civil rights and obligations or of any criminal charges against

> him, be entitled to a fair and public hearing whithin a reasonable time by an independent, impartial and competent court established by law."

Additionally, every person has the right to be informed of charges against him and to be represented by a lawywer of this choice. This constitution also incorporates the presumption of innocence for those charged with a criminal offense.

Article 19 prohibits "bodily searches of a person or a search of his private papers and belongings without a court or judges order". This constitution holds inviolate a persons dwelling house while simultaneously guaranteeing such fundamental freedoms as those of communication, movement, residence, conscience, religion, thought, speech, expression, science, art, assembly, demonstration, the press and the right to publish newspapers, periodicals and phamplets.

Chapter 3 proclaims social and economic rights, liberties and duties. This section declares that the family is the foundation of the community and requires the government to adopt necessary measures and establish organizations for the protection of the family. Citizens are guaranteed the right to work "in any field of his liking". Citizens are also guaranteed the right to establish private enterprises. The constitution also guarantees the right to work as well as the right to rest. It mandates equity in pay while giving workers the right to establish trade unions and engage in collective bargaining. It establishes a system of social security and specifically requires protection against hunger as well as the right to education, training and the rehabilitation of the poor.

The right to vote is granted to all citizens who have attained the age of 18. Every citizen who has attained the age of 25 years has the right to be elected to public office. Citizens have the right to form political parties and engage in partisan politics.

From an American legal and political perspective, the Constitution of the Turkish Republic of Northern Cyprus is an

admirable document. It embodies rights which we as Americans hold sacred and it reflects a clear bias in favor of Western European and American democratic principles and traditions.

As we all know, the Middle East is of vital importance to the United States. Unfortunately, authoritarian, repressive and undemocratic regimes predominate in this part of the world. The United States prides itself on fostering democracy throughout the world. We, as a nation, have encouraged the propagation of democratic institutions in every country where they have taken root. We have praised freedom and self-determination and have fought for these principles repeatedly in this century. Yet, in Cyprus, the United States opposes the very principles it supports elsewhere. Are not the Turkish Cypriots entitled to the same freedoms and rights we wish for the oppressed victims of social and political discrimination throughout the world?

When a Congressman speaks "of the hopes of the citizens of Cyprus that they might see an end to the eleven year occupation and division of their homeland" is he speaking of the Turkish Cypriots as well as Greek Cypriots? When a Congressman declares that the people of Cyprus "deserve to live united and free of military occupation..." does he include the indigenous Turkish population of Cyprus in his statement? I am afraid that the rights and interests of the Turkish-Cypriots were not considered when these statements were made.

American policies and attitudes regarding Cyprus have been misguided and misdirected by the existence of a strong, well organized and effective ethnic lobby. I believe that by promoting the "united Cyrpus" myth, the Greek American lobby has done a disservice to this country and has sacrificed American national interest on the altar of ethnicity. In his recent and most thoughtful book entitled Ancient Affections, Laurence Halley observed:

> Among the several definitions sociologists give to their newly minted-and characteristically ugly-word "ethnicity," the Greek-American campaign of 1974 is clearly an

> example of ethnicity-as-force: the phenomenon whereby an ethnic group mobilizes for a common purpose in defiance of their governement's plea to consider the interests of the nation as a whole. To some, for instancce, this is as it was to Woodrow Wilson, an outrage to the established principles of democratic government. To others, it s merely an example of the ineradicable right of citizens in a democratic society to band together to influence the policy of the government. There has been some tendency to gloss over this question in such retrospective studies as exist on Greek-American behavior during the arms embargo debate. Comfort has been taken in such homely thoughts that ethnic agitation is as "American as applie pie" which adds a refreshing dash of culinary chauvinism to the mix. But the question with its civic, not to mention moral, dimensions is in fact the crucial one...

I sincerely believe that a close examination of the history of Cyprus since 1974 and the new Constitution of the Turkish Republic of Northern Cyprus will convince the Congress that punishing Turkey for its actions on Cyprus and its support for the Turkish Republic of Northern Cyprus by withholding or reducing American economic and military assistance is, at best, unwise, unjust and contrary to our nations interests in maintaining close and harmonious relations with a key NATO ally.

It is interesting to note that in the Department of State report to Congress on Human Rights practices for 1985 it was reported that,

> The political systems of the Republic of Cyprus and the Turkish Cypriot Administration are democratic and based on free elections, and they guarantee basic human rights to the poplulations in theory and practice.

The United States must recognize that democracy is alive and well in Northern Cyprus and that peace has reigned since 1974. American policies should take into account the true facts of Cypriot history and the political realities created thereby. To be true to our ideals we should and must suuport democratic and constitutional governments freely choosen by their citizens throughout the world.

Senator KASTEN. I wondered, just very briefly, are you telling us that it is the policy of the U.S. Government not to have people travel to all sections of Cyprus? I didn't understand what you said.

Mr. YOUSSOUF. Mr. Chairman, my understanding is that the first time that this was arranged, it was settled by the State Department at the insistence of the Greek lobby. I believe that that action translates into a policy.

Interestingly enough, this is the only incident that I know of where a question of statehood was raised as an objection to a fact finding mission by congressional aides. Without valid information, how can we formulate intelligent policy? I find it reprehensible.

If there is something to fear in talking to Turks, I would like to know about it. I think the fear may be that the truth would come out. So the unofficial policy, as I understand it, was, in fact, to present just what you said, and I think that it is a tragedy.

Senator KASTEN. The unofficial policy.

Mr. YOUSSOUF. Yes, the unofficial policy.

Senator KASTEN. I am just not familiar with the policy, official or unofficial.

Thank you for your testimony and thank you for appearing before the committee.

Our next witness is Ms. Sharon L. Camp representing the Population Crisis Committee, of which she is the vice president.

POPULATION CRISIS COMMITTEE

STATEMENT OF SHARON L. CAMP, ON BEHALF OF THE POPULATION CRISIS COMMITTEE

Ms. CAMP. Thank you, Mr. Chairman.

In my written statement, I attempted to capture for you a day in the reproductive life of some 800 million married couples of reproductive age. I started with the fact that out of those couples, over the next 24 hours, about 200 million of them will be engaged in sexual activity, and as a result of that about 480,000 Third World women would become pregnant in the next 24 hours.

I carried this snapshot of reproductive behavior through to 9 months from today at which point 205,000 people would be added to the world population, and that is a number somewhat larger than the population of Madison, WI.

That number will continue to grow, that daily increment to the world's population, and will probably continue to grow to the end of this century.

I also indicated that of the 315,000 children that would be born 9 months from now, 1,200 of them would never know their mothers because those mothers would die in childbirth, that 33,000 of that day's children born would never live to celebrate their first birthday, and another 13,000 would not live to the age of 5, and that large numbers of these maternal deaths and child deaths could be prevented through better family planning.

I drew this 1-day snapshot of reproductive behavior in the Third World to make a number of points.

The first was that despite the theories of those now calling themselves supply-side demographers, capitalism is really not the best contraceptive, in fact, it is not a contraceptive at all.

Although economic modernization changes the way people perceive the costs and benefits of children, and although higher levels of income and education may increase couples' access to contraceptive information and supplies, development does not change their basic biology. There are only two ways to prevent unwanted pregnancy, and that is, sexual abstinence and contraception.

Of the 480,000 pregnancies that will occur in the Third World over the next 24 hours, 415 of those will result because those couples were not using any effective form of modern contraception.

Survey data indicate that large numbers of noncontraceptive users would really like to space the time between their children. One has to conclude that many of these couples have not gained access to an affordable source of information and supply, or have not found an acceptable contraceptive method among the choices currently available.

None of this is surprising. Third World countries spend about 40 cents per capita of their own and donor assistance to support family planning programs. This is to say, they provide about 40 cents per capita annually to provide universal access to family planning services, whereas they would need to provide $2 per capita or about $10 per couple of reproductive age per year.

Although developing countries have been picking up an increasing share of the cost of their family planning programs, many still rely significantly on donor funds, foreign technical expertise, and imported commodities. Donor population assistance has not increased in real dollars terms since 1972, and it has remained the paltry 1.3 percent of total overseas development assistance.

Another fact that emerged from this 1-day snapshot of reproductive behavior was the level of contraceptive failure that is associated with the currently available methods. Of the 480,000 pregnancies that will occur in the next 24 hours, 65,000 of those will result from contraceptive failure. They will involve couples who are trying to limit their family size.

I think the principal point, Mr. Chairman, that I want to leave with you is that developing countries, at current funding levels, their own and our assistance, are only able to reach about one-quarter of the couples who need and want subsidized family planning services.

For the current fiscal year, fiscal year 1986, the program will have taken a 20-percent cut, a $56 million cut from fiscal year 1985 levels. The United States needs to be in the leadership around the world in mobilizing the resources that are needed to meet these family planning needs. Instead, by substantial funding cuts, and ambivalent messages about our concern over this problem, we are doing just the opposite.

I want to thank the subcommittee for the opportunity to testify today, and for your support of the program in the past. I hope that even with the current budget constraints, you will be able to provide an adequate level of funding for the program in 1987.

[The prepared statement of Ms. Camp follows:]

PREPARED STATEMENT

Sharon L. Camp, PhD.

Vice President

Population Crisis Committee

Chairman Kasten, subcommittee members, thank you for the opportunity to present testimony today on behalf of the Population Crisis Committee. My name is Sharon Camp and I am PCC's Vice President for Public Policy.

PCC is a private non-profit organization which has, since its establishment in 1965, been a leader among population organizations in efforts to strengthen political and financial support for family planning overseas. Our work involves high-level advocacy at home and abroad to increase government commitment and also selective support of innovative private family planning programs in developing countries. It is perhaps important to state that we receive no US government money for any part of our programs. Thus, while we may express strong opinions about the direction of US population assistance, these comments are not motivated by any fiduciary interest in the program.

The Demographic Facts of Life

Let me begin with a few basic facts about human reproduction as it relates to Third World population growth -- what one might call the demographic facts of life.

There are approximately 800 million couples in the world of reproductive age, of which 600 million live in the Third World. In the next 24 hours, based on the best anthropological information we have, and allowing for differences in culture and physical health, about 200 million of these couples will engage in sexual activities. As a result of these activities, in the next 24 hours, about 480,000 Third World women will become pregnant.

Assuming this type of human activity to be a fairly constant variable, the number of resulting pregnancies will be primarily the result of the use, or the non-use, of contraception, and the effectiveness of the methods used. We can estimate that over half -- about 54 percent -- of sexually active couples will be unprotected by any modern or traditional form of birth control. These couples will account for about 415,000 of the daily total of 480,000 pregnancies. About 36 percent will use some effective modern method of contraception, although this proportion drops to 22 percent if China is excluded. An additional 10 percent will rely on traditional methods such as old-fashioned calendar rhythym or withdrawal. Based on the known average failure rates of both modern and traditional methods, the couples attempting to contracept would account, over the next 24 hours, for another 65,000 pregnancies.

Nine months from today, on about January 22 of 1987, these 480,000 April conceptions will result in roughly 315,000 live births. The difference between conceptions and live births is explained by abortion. In the coming year there will be an estimated 55 million abortions in the Third World, about 25 million of them spontaneous miscarriages and about 35 million of them induced abortions. About half of the latter will be illegal procedures having a substantial impact on maternal mortality and morbidity.

On January 22, 1987, as a result of the conceptions which will occur in the next 24 hours, and of the roughly 110,000 deaths which will occur that day, the world's population will grow by about 205,000 people, a number somewhat larger than the population of Madison, Wisconsin. This daily growth in Third World countries adds up to a million people every five days or 75 million people in a year.

Each day thereafter, the daily Third World population increment will increase, as it has done for the last 30-some years and as it will continue to do into the next century. This is not because people are becoming sexier or more careless, but rather because each day there are more people of reproductive age -- the result of past population growth. All the Third World

men and women who will begin their reproductive lives between now and the end of this century have already been born. Population increments are also rising because, at current levels of investment, the expansion of family planning services is just barely keeping ahead of increases in the target population and because the health programs which we all applaud continue to reduce the other side of the equation, that is the number of deaths.

Before leaving this mini-cohort of children, all to be conceived in the next 24 hours, let me make just a few comments on their future welfare and how it is related to these demographic facts of life. First, 1200 of these children will never know their mothers, who will die in childbirth: an annual toll of 450,000 maternal deaths. Some 33,000 of these children (about one in ten) will never live to celebrate their first birthday and 13,000 will not reach the age of five -- a total toll in child mortality of well over 16 million a year. Tragically, about 200,000 of these maternal deaths and 5.6 million of these children's deaths could be prevented through the appropriate timing and spacing of births. Perhaps an additional 70,000 women who die from the complications of illegal abortion could also be saved through adequate family planning.

Implications for US Policy

What conclusions can we draw from this one day's snapshot of reproductive behavior? It seems obvious that, despite the theories of those now calling themselves supply-side demographers, capitalism is really not the best contraceptive. Although economic modernization changes the way people perceive the costs and benefits of children and although higher levels of income and education may increase couples' access to contraceptive information and supplies, development does not change basic biology. It is neither necessary nor sufficient to produce birthrate declines. There are only two ways to prevent pregnancy: sexual abstinence and contraception. There are few countries in which the former is routinely relied on for fertility control.

It is also obvious from the foregoing data that many more couples lack an

effective method of contraception than those using one of the currently available modern methods. Since survey data indicate that large numbers of non-users want to limit or space childbearing, one must conclude that (a) many couples lack a convenient or affordable source of information and supplies and (b) many couples do not find an acceptable contraceptive method among the currently available choices.

This is not surprising. Third World countries, excluding China, spend about 40 cents per capita annually of their own and donor assistance to support family planning programs. To provide universal coverage, they would need to spend about $2.00 per capita or about $10.00 for every couple of reproductive age per year. This means that most developing countries can reach less than one-fourth of all couples who need subsidized services.

Although developing countries have been picking up a larger and larger share of their program costs, many still rely significantly on donor funds, foreign technical expertise and imported commodities. Donor population assistance has not increased in real dollar terms since 1972 and has remained a paltry 1.3 percent of total overseas development assistance.

Because program resources have been scarce, most developing countries have been able to offer only a limited range of contraceptive choices, and in some cases a limited amount of individualized information. Individual needs and preferences in contraception vary. They also change over a couple's reproductive lifetime. Thus programs which offer only two or three choices are unlikely to accommodate more than a portion of the eligible population and are unlikely to sustain high level of contraceptive use.

Contraceptive choices may shrink further in the future as a result of decisions by many US pharmaceutical firms to pull out of contraceptive research and marketing. US foreign aid programs, which buy contraceptive commodities in bulk from US suppliers, are the largest, most cost-effective and most reliable source of supplies for subsidized family planning programs overseas.

Another fact which emerges from our one-day snapshot of Third World demography is less obvious. That is the level of contraceptive failure associated with currently available methods. On an annual basis, 23 million pregnancies result from contraceptive failure, about 13 percent of all intended and unintended pregnancies. A broader array of more effective contraceptives is clearly needed. If new contraceptives were also easier to use and distribute, freer of side effects, and less expensive, high levels of sustained prevalence could probably be achieved at a lower per capita cost.

The implications of all these trends for US policy can be summarized fairly simply. First, barring a sexual counter-revolution, the expansion of contraceptive information and services is still the most effective way to limit the human and larger social costs of unwanted fertility in developing countries, including the growing number of illegal abortions. Second, donors and developing countries are investing less than a quarter of what is needed. Traditionally the largest population donor, the US should take the lead in mobilizing more resources. We are doing just the opposite by cutting funds sharply and signalling an official ambivalence toward population issues. Third, the world needs to make a larger and more concerted effort in contraceptive development. Since 80 percent of current research is US-based, Americans have a key role to play. But US pharmaceutical company and government investments are shrinking. Unless these trends are reversed soon, worldwide family planning efforts will continue to fall far short of the mark.

Recommendations for Fiscal Year 1987

1. **Funding levels:** For the current fiscal year (FY 1986), population assistance programs have taken an almost 20 percent cut, down $56 million from FY 1985, as a result of lower appropriations, Gramm-Rudman-Hollings reductions and transfers to other accounts. The Office of Population in AID, whose grantees are the principal source of technical expertise to public and private family planning programs overseas, is more than $40 million short of funds needed to meet existing grant and contract commitments.

We recognize that under the current budgetary pressures it is unrealistic this year to expect Congress to restore population assistance funding to the FY 1985 appropriation level of $290 million, even though additional funds are urgently needed. We hope, however, that the subcommittee's recommendation for FY 1987 appropriations would represent a modest increase over the President's low budget request of $250 million. Such an action would be politically as well as programmatically important.

2. **Program allocations:** We also hope that the subcommittee will provide firm guidance to the Administration on how to spend its smaller population assistance budget more effectively. We believe the Administration should follow its own rhetoric and give greater emphasis to private sector programs, both private voluntary programs and private enterprise programs. There is some progress here, but much more could be done. The 20-year record of US population assistance demonstrates that these channels reach many more countries, are more cost-effective, are more innovative and flexible and in many countries are more publicly acceptable than programs operated by large government bureaucracies. The subcommittee should insist at the very least, that any further cuts to population assistance in FY 1987, regardless of their origin, result in reductions to government-to-government programs and not to the projects supported through private sector channels. Although we are generally not in favor of large AID expenditures for either social science research or basic biomedical research, we do strongly endorse new initiatives in applied research to speed work on promising new contraceptive leads, operations research to improve the delivery of contraceptive services and broader dissemination of existing social science findings to increase policy impact.

We also urge the subcommittee to carry over into any FY 1987 appropriations vehicle, language offered last year by Senator DeConcini and approved for incorporation in the FY 1986 continuing resolution. This amendment ensures that clients of all US-funded family planning programs will receive the information they need to make informed choices among the family planning methods, excluding abortion, available in their particular countries.

Finally, we hope that the subcommittee will monitor closely Administration deliberations over an FY 1986 US contribution to the UN Fund for Population Activities. The Administration has given the Kemp-Inouye-Helms language, contained in the FY 1985 supplemental appropriation and the FY 1986 continuing resolution, a very restrictive interpretation. This interpretation may well result in no US contribution to UNFPA this year. Such an outcome would have political repercussions well beyond the levels of assistance to UNFPA's 115 country recipients, affecting both donor and Third World government perceptions of US commitment to population work. Following on our ambivalent policy pronouncements at the 1984 International Population Conference, our defunding of the International Planned Parenthood Federation in FY 1985 and our nearly 20 percent cut to population assistance this current year, US withdrawal from UNFPA would certainly signal to US friends abroad our intention to abandon international family planning efforts.

Mr. Chairman, subcommittee members, thank you again for the opportunity to testify today. And thank you for your continuing interest in and support of US population assistance programs.

Senator KASTEN. We thank you for your testimony, and also for the work that you and others, with your committee, have done, working with the members of the subcommittee and the staff.

You are no doubt aware of the fact that we have, in the past, increased the levels above the administration's request.

Ms. CAMP. I hope that you will do so again.

Senator KASTEN. We have challenges before us now.

I also want to commend you for a comment which you made in your prepared document, which is consistent with other comments that we have been receiving today, in which you say that the administration ought to follow its own rhetoric and give greater emphasis to private sector programs, both voluntary programs, and private enterprise programs.

I think that this is also an interest that the committee has had, working with PVO's, and to go through a record of cost effectiveness, efficiency, flexibility, et cetera. I commend you for that statement, and we are going to try to continue to work in those directions, to do a better job of delivering the services that we have available to us.

Ms. CAMP. That is terrific, and I might just suggest, Mr. Chairman, as I did in one of my recommendations, that perhaps this budget crunch is an opportunity to get our priorities straight in some of these development programs, and to take the cuts that we all recognize are going to

have to occur in these programs out of the big government to government programs, and out of the hands of Third World bureaucrats, and put them in the hands of people who can get the job done.

Senator KASTEN. We thank you for your work and for your testimony.

Ms. CAMP. Thank you.

Senator KASTEN. Our next witness is Mr. David J. Sadd, the executive director of the National Association of Arab Americans.

Mr. Sadd, we welcome you.

NATIONAL ASSOCIATION OF ARAB AMERICANS

STATEMENT OF DAVID J. SADD, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF ARAB AMERICANS

Mr. SADD. Thank you, Mr. Chairman.

NAAA welcomes this opportunity to testify before your subcommittee.

As the principal organization representing the 3 million Americans of Arab descent, as well as a large and growing number of other Americans who share our views, NAAA wants not only to promote good relations between the United States and the Arab countries, but also to see that U.S. tax dollars are spent in the most effective way.

The Arab world spans two continents, stretching from Mauritania and Morocco on the west coast of Africa to Oman on the southeast corner of Asia's Arabian peninsula. The 21 Arab countries cover nearly 5.4 million square miles, an area that is 1.5 times the size of the United States. Over 180 million people live in those countries.

Some of the world's most strategic areas are contained in the Arab world. Morocco forms the southern part of the important Strait of Gibraltar, which guards the western entrance to the Mediterranean Sea. Egypt's Suez Canal allows Indian Ocean shipping to enter the Mediterranean without having to circle the southern tip of Africa.

Some of the world's richest oil reserves are found under Arab soil.

On an economic level, the Arab world has proven to be invaluable to our country. At a time when U.S. trade deficits with the world as a whole keep breaking record levels, the United States has had a trade surplus with the Arab countries for each of the last 4 years.

It is our hope that our foreign assistance program can promote American interests in this vast and important part of the world. With respect to the fiscal year 1987 foreign assistance bill, we are concerned that the Gramm-Rudman-Hollings Deficit Reduction Act, which this year will produce a 14-percent decrease in overall foreign aid, will produce as well reductions in already small aid levels to certain Arab countries.

There appears to be a sentiment in the Congress which would exempt both Israel and Egypt, the two largest recipients of aid, as well as the five base rights countries from the reductions required under Gramm-Rudman-Hollings. Such a decision would put an even greater onus on the rest of the countries which receive much smaller levels of aid, and can eliminate some programs altogether.

Mr. Chairman, members on both sides of the aisle have observed that neither the military budget nor foreign assistance nor entitlement programs should be exempted from cuts under Gramm-Rudman-Hollings. We believe the same principle applies to cuts for specific foreign aid recipients. Therefore, Israel, Egypt and the base rights countries must not be exempted.

To be sure, we are deeply concerned over the potential impact of a 14-percent reduction in aid to Egypt. However, the alternative appears to be a 50-percent cut in aid to countries such as Morocco, Jordan, Tunisia, which would have disastrous implications for U.S. interests in the region.

At the same time, we point out that Egypt needs the level, the $2.3 billion requested in the military and economic assistance section. Its 49 million people, unfortunately, have one of the lowest standards of living in the Arab world, with a per capita GNP of only $700.

We urge you to support the administration's request of $18 million of Economic Support Funds to improve living and employment conditions of Palestinians residing in the occupied West Bank and Gaza. This small aid program, funding economic and social development in West Bank and Gaza has, perhaps, the highest impact of any American aid program anywhere in the world.

Because aid to the occupied territories is minimal, it can ill afford a cut under Gramm-Rudman-Hollings. We would, therefore, welcome efforts by your subcommittee to earmark funds for private voluntary organization sponsored programs in the West Bank and Gaza.

We fully support the administration's aid request for Jordan. Perhaps no other country in the Middle East has done so much as Jordan in recent years to promote the search for peace in the region.

While the Jordanian peace initiative remains on hold for the present, at least, Jordan's ability to continue as a central actor in the peace process depends largely on the willingness of the United States to help in meeting its legitimate and very pressing economic and military needs.

We appreciate the efforts, last year, to approve supplemental assistance to Jordan. We believe that the aid levels the administration has proposed for Jordan for fiscal year 1987 should also be approved.

We also urge that to help compensate for the relatively low levels of aid to Jordan, assistance be extended on more favorable concessionary terms.

Many Arab Americans of Lebanese extraction, Mr. Chairman, have a continuing interest in Lebanon's affairs and future. While we recognize the difficulties associated with extending aid to Lebanon, we feel that the $2.8 million total of economic and military assistance to Lebanon is entirely inadequate.

We urge this subcommittee to restore funding for Lebanon in the amount of $20 million which will enable these organizations to continue their important work in Lebanon beyond fiscal year 1986.

We strongly support the administration's aid request for Morocco, Tunisia, Sudan, and Oman. It is only because of time limitations that I

will not go into details on these requests. Our views, however, are explained in the testimony.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Sadd follows:]

National Association of Arab Americans

WRITTEN TESTIMONY OF DAVID J. SADD,
EXECUTIVE DIRECTOR,

The National Association of Arab Americans (NAAA) is pleased to present testimony on the Middle East portion of the Administration's fiscal year 1987 foreign aid request. As the principal lobbying organization representing the three million Americans of Arab descent--as well as a large and growing number of other Americans who share our viewpoint--NAAA wants not only to promote good relations between the United States and the Arab countries of the Middle East, but also to see that U.S. tax dollars are spent in the most effective way for the protection and promotion of U.S. national interests in that region.

This year, the American people are perhaps more concerned with controlling the enormous budget deficit and promoting fiscal responsibility than at any time in our nation's history. We, as Arab Americans, share this concern. In presenting this testimony, we are aware of the fact that the foreign aid bill is subject to cuts under the requirements of the Gramm-Rudman-Hollings deficit reduction act and that all recipient countries should be expected to bear their fair share of the burdens associated with these reductions.

It is our intention in this testimony to offer our support, in general, for the president's fiscal year 1987 foreign aid requests for the Arab countries. In some cases, such as Jordan and Tunisia, and the occupied territories of the West Bank and Gaza, we believe that these requests represent the absolute minimum amount necessary to further U.S. interests in the region. In the case of Lebanon, it is our contention that $2 million is inadequate to do so. We urge Congress to remember in its consideration of the foreign aid bill that the Administration, too, has taken the mood of the American people into consideration in preparing its foreign aid proposals. In its proposals for the Arab countries, therefore, it has already pared its requests to the bone. We believe that additional cuts would not be in the interests of the United States.

I. IMPORTANCE OF THE ARAB WORLD

The Arab world spans two continents, stretching from Mauritania and Morocco on the west coast of Africa to Oman on the southeast corner of Asia's Arabian peninsula and Iraq north of the Gulf. The 21 Arab countries cover nearly 5.4 million square miles, an area that is one and a half times the size of the United States. Over 187 million people live in those countries, and the number is likely to grow substantially in the years to come as the result of high population growth rates.

Some of the world's most strategic areas are contained in the Arab world. Morocco forms the southern part of the important Strait of Gibraltar, which guards the western entrance to the Mediterranean Sea. Egypt's Suez Canal allows Indian Ocean shipping to enter the Mediterranean without having to circle the southern tip of Africa. Some of the world's richest oil reserves are found under Arab soil. This is particularly significant in view of the fact that other oil producers like Mexico, Canada, and the United Kingdom are rapidly depleting their own reserves.

The United States has friendly political relations with most of the 21 countries of the Arab world. Some of these countries have granted the United States access to their military facilities under certain circumstances and have supported the U.S. position on many issues of mutual concern.

On an economic level, the Arab world has proven to be invaluable to our country. At a time when U.S. trade deficits with the world as a whole keep breaking record levels, the United States has had a trade surplus with the Arab world countries for each of the last four years. On the basis of the Commerce Department's formula that each $1 billion worth of U.S. exports creates or sustains 25,000 American jobs, the Arab world since 1980 have provided more than 2 million jobs for Americans, and billions of dollars worth of earnings.

II. GRAMM-RUDMAN-HOLLINGS AND FOREIGN AID

At a time when one of the overriding concerns of legislators and the public alike is to reduce the enormous budget deficit, the foreign aid bill takes on an even greater importance and urgency. If the United States is to continue to meet its responsibilities and promote its national interests in the region, it is essential that adequate levels of aid be extended to all of our friends in the Middle East. The Reagan Administration's aid proposals for the Arab world represent in most cases a minimum amount necessary to further American interests in the region--and in some cases already appear to be inadequate to do so.

We are concerned that the Gramm-Rudman-Hollings deficit reduction act, which this year will require a 14% decrease in overall foreign aid, will be used to secure unwise reductions in already small aid levels for certain Arab countries, while Israel, with enormous yearly grants of military and economic aid, could escape cuts altogether. There appears to be a sentiment in Congress which would exempt both Israel and Egypt, the two largest recipients of aid, as well as the five base rights countries, from the reductions required under Gramm-Rudman-Hollings. Such a decision would put an even greater onus on the remaining recipient countries, which receive much smaller levels of aid, and could eliminate some programs altogether.

We believe that, despite the importance of dealing with the budget deficit, aid levels to the Arab countries below the Administration requests will be inadequate to meet the needs of the recipient countries and therefore would not be in the interests of the United States. But if such reductions must take place, all countries should be asked to bear their fair share.

Mr. Chairman, there seems to be a growing sentiment on Capitol Hill that neither the military budget nor foreign assistance nor entitlement programs can or should be exempted from cuts under Gramm-Rudman-Hollings. We believe that the same principle applies to cuts for specific foreign aid recipients--and that therefore Israel, Egypt and the base rights countries must not be exempted.

III. RECOMMENDATIONS

Our specific recommendations for the Administration's fiscal year 1987 foreign aid requests are given below. In addition and for the record, NAAA supports the Administration's requests for Algeria, Djibouti, Mauritania, Somalia, and Yemen.

Aid to Egypt

The $2.306 billion request in military and economic assistance for Egypt is slightly more than the level approved for the current fiscal year. We support the president's request and recommend its approval by Congress.

The case for aid to Egypt on this scale is very strong: Egypt genuinely needs the aid that the Administration has requested. Its 49 million people, unfortunately, have one of the lowest standards of living in the Arab world, with a per capita GNP of only $700. This is less than one-seventh of the per capita GNP of Israel, a country whose population is one-twelfth its size, which will receive substantially more aid. Despite the glaring difference in the level of economic development between Egypt and Israel, however, the president's request amounts to a spending of less than $47 for every citizen of Egypt compared to an expenditure of $726 for every citizen in Israel.

The aid requested for Egypt is also vital because of economic difficulties that Egypt is facing that are largely beyond its control. The declining worldwide price of oil has caused both a decline in Egypt's own oil revenues and a sharp drop in Egyptian workers' remittances from OPEC countries. Revenues from the Suez Canal, another major source of hard currency, are also depressed.

Egypt has long been an important friend of the United States. It has worked consistently to promote the Middle East peace process. Egypt has granted the U.S. landing privileges at its naval and air facilities under certain circumstances. It provided support for U.S. transhipment of ammunition to Lebanon when the American marines were there, and has cooperated with the United States in taking action to deal with threats to Sudan, its southern neighbor, in the past.

The West Bank and Gaza

We support the Administration's request of $18 million for activities to promote living and employment conditions of Palestinians residing in the occupied West Bank and Gaza.

The small aid program funding economic and social development in the West Bank and Gaza has perhaps the highest impact of any American aid program anywhere in the world. It provides economic assistance directly through such private voluntary organizations (PVOs) as American Near East Refugee Aid (ANERA), the American-Mideast Educational and Training Services (AMIDEAST), Catholic Relief Services (CRS), and Save the Children/Community Development Foundation (SCF/CDF).

We applaud the Administration's interest in finding ways to stimulate private sector activity in the West Bank and Gaza and their emphasis on supporting institutions which can serve to channel funds to private borrowers for productive uses in agriculture and industry. The Administration's increasing focus on aid to the occupied territories will help to provide the essential tools for economic development of the local population.

Unfortunately, Israeli interference in the program has until recently been widespread, thereby reducing its effectiveness. According to a report two years ago by Meron Benvenisti, the former deputy mayor of Jerusalem, between 1977 and 1984 only 23.1 percent of the industrial expenditures and 35.6 percent of the agricultural expenditures endorsed by AID had been approved by Israel. U.S.-funded projects that did not give the Palestinians a stake--such as public works projects that Israel would otherwise have had to pay for itself--were given ready approval by the Israeli authorities. Thus, Israel was diverting U.S. aid from its intended objectives.

This is just one aspect of a 19-year-old Israeli policy of stifling Palestinian economic initiatives. Palestinians are denied permission to dig new irrigation wells, discouraged in their attempts to form cooperatives, limited in their planting of trees and vegetables, constrained from selling their produce in Israel, turned down--or made to wait indefinitely--when applying for licenses to start up a business project or construct a building, and deprived of adequate credit and money market facilities. PVOs have enumerated cases in which the Israeli government delayed or denied clearance to proceed with individual subprojects, particularly those of a development nature.

While several PVOs have reported receiving greater cooperation from the Israeli occupation authorities during the Administration of Prime Minister Shimon Peres than they did under the previous Likud government, the Likud is scheduled to resume the prime ministership in October of this year--the beginning of the new fiscal year. We urge Congress and the Administration to press Israel not to obstruct PVO-administered projects on the West Bank.

Aid to Jordan

Perhaps no other country in the Middle East has done as much as Jordan in recent years to promote the search for peace in the region. For over a year, King Hussein made a strong personal effort, despite pressures from hardliners, to revive the stalled Middle East peace process. While the Jordanian initiative remains on hold--for the present at least--Jordan's ability to continue as a central actor in the peace process depends largely upon the willingness of the United States to help it in meeting its legitimate and very pressing economic and military needs.

Jordan is an important friend of the United States, both politically and strategically. Few would deny that it is an essential key to Middle East peace. Unfortunately, the United States has not given Jordan the kind of moral and material support in recent years that it needs and deserves. The indefinite postponement in February of a sale of advanced fighter aircraft to Jordan, for example--a sale that the Reagan Administration had determined was in the U.S. national interest--was a severe blow for U.S. credibility and a setback for Jordan's security needs. The Administration's request for Jordan takes on greater importance in light of the arms sale postponement.

We believe that the aid levels the Administration has proposed for Jordan for fiscal year 1987 should be approved. We are particularly concerned that the Administration's aid levels for Jordan not be cut substantially by Congress to meet the budget requirements of Gramm-Rudman-Hollings. Our interests in Jordan are too important to impose on it a disproportionate share of the burden of necessary budget cuts. We believe that the level of aid this year for Jordan is already too low and the terms under which it is being given are not as favorable as they ought to be.

Jordan, with a population of almost 2.5 million, has a per capita income of $1,640, less than one-third that of Israel. Yet the Administration's aid request for Jordan is only $135 million--compared with $3 billion for an Israel with a much higher standard of living. In addition, of the $115 million in FMS credits for Jordan, $50 million will be extended at relatively high Treasury rates of interest rather than the much lower concessionary rates that are given to such countries as Egypt and Israel. And--again unlike Egypt and Israel--the $65 million given to Jordan at concessionary rates are not forgiven. In addition, although it is a small sum, $4 million in ESF aid for Jordan is given in the form of loans rather than grants. We urge that, to help compensate for the relatively low levels of aid to Jordan, assistance be extended at the more favorable concessionary terms.

Aid to Lebanon

While we recognize the difficulties associated with extending aid to Lebanon under the present conditions there, we feel that the $2.8 million total of economic and military assistance to Lebanon that the Administration has requested is wholly inadequate to meet its needs. Indeed, such sums will do virtually nothing to help promote stability in Lebanon, nor will they contribute to the achievement of a unified, sovereign Lebanon, free from external forces and able to secure its territorial borders.

Tragically, continued bloodshed in Lebanon has made U.S.-sponsored relief efforts even more important. U.S. private voluntary organizations, such as Save the Children, Catholic Relief Services,

the YMCA in Lebanon, and UNICEF, have made significant progress in providing assistance to the victims of Lebanon's conflict. If funds for Lebanon are not increased, many programs administered by these PVOs will come to a halt. We urge this subcommittee to restore funding for Lebanon which will enable these organizations to continue effectively their important work beyond the current fiscal year.

Aid to Morocco

The ties between the United States and the Arab world are exemplified by our ties with Morocco. Next year the United States will celebrate the 200th anniversary of its treaty with Morocco--the longest treaty with the United States in existence.

NAAA supports the Administration's fiscal year 1987 request of $156 million for Morocco. The request represents a slightly higher figure than the levels approved in fiscal year 1986, and includes increases in ESF and FMS levels.

The Moroccan economy has suffered under severe strains in recent years. It has an external debt burden which now exceeds its annual gross domestic product, and it has had to struggle with the problems of severe drought and low demand for its principal export, phosphates. With a population of more than 23 million, a population growth rate of 2.7% and a per capita GNP of only $760, Morocco can effectively utilize the $84 million in economic and development aid that the Reagan Administration has proposed. At the same time, it has shown itself able to to implement a program of fiscal austerity and economic adjustment under the guidance of the World Bank and the International Monetary Fund.

Located on both the Atlantic Ocean and the southern half of the strategic Strait of Gibralter, Morocco has been an important friend to the United States for many years. It has agreed to allow U.S. forces access and transit rights to its military bases in certain cases and provides training areas for U.S. forces stationed in Europe. It also provides much-needed facilities for the Voice of America.

Aid to Tunisia

The Administration's FY 1987 request of $95 million for Tunisia is almost as high as last year's request, and somewhat higher than the amount of fiscal year 1986 assistance actually approved by Congress. We believe that the $27 million in ESF, Development Assistance, and PL 480 aid included in the Administration's request is inadequate to meet Tunisia's very pressing economic needs. Nevertheless, mindful of the constraints of Gramm-Rudman-Hollings, we recommend approval of the Administration's request.

Tunisia has been a friend of the United States since it gained independence in 1956, often using its influence in international bodies to moderate the views of others. During the hostage crisis in Iran, for example, Tunisia cast the deciding vote in the U.N. Security Council for sanctions against Iran. In the Arab League, Tunisia has been a consistent force of moderation. On military matters, Tunisia has been receptive to U.S. initiatives. The Sixth Fleet enjoys regular access to Tunisian ports. The United States and Tunisia have established a joint military commission, and Tunisian officials have shown a desire for heightened military cooperation.

Tunisia's economy has been hurt by a severe drought, and by the fact that it has become a net importer of oil. The expulsion of more than 20,000 Tunisian workers and their families from Libya in 1985, which was due in part to the fall of Libyan oil revenues, put severe strains on the Tunisian economy and made it more difficult for the government to deal with trade and budget deficits and a growing foreign external debt and debt service ratio. In light of these conditions, it is clear that Tunisia requires increased economic aid levels.

Aid to Sudan

We support and commend the Administration's request for over $223 million in economic and military aid to Sudan. Geographically the largest state on the African continent, Sudan is of great importance to the United States. It lies on the Red Sea opposite Saudi Arabia and borders on Egypt, Libya, Chad, and Ethiopia, among other states. Sudan's foreign policy in the past decade has been generally sympathetic to U.S. goals. It has lent support for U.S. peace initiatives in the Middle East and for efforts to expand American military access and capabilities in the region.

Approving the Administration's request is particularly important this year in light of the efforts of the Sudanese government, which took office in April 1985 in a bloodless coup, to nurture democracy. Elections are taking place over a two week period this month in Sudan for a constituent assembly. The assembly will write a new constitution that will establish a means to set up a civilian government to replace the transitional military council of General Abdel Rahman Swareddahab.

With a per capita income of only $400 and an average life expectancy of just 48 years, Sudan is one of the least developed countries in the Arab world. Even though it has experienced severe drought in recent years, which has cost it much-needed export earnings, Sudan has taken in more than 1.5 million refugees fleeing drought, famine, and war in neighboring countries.

We applaud the Administration for requesting $90 million in ESF aid, all of it in grants, for Sudan. The funds will assist the Sudanese government to recommence work on important agricultural and oil exploration projects and help Sudan cope with the refugees it is hosting.

Aid to Oman

NAAA supports the Administration's request for $18.8 million in ESF grants and loans, $40 million in FMS loans, and $205,000 in IMET aid for Oman, although we note with some concern that this request is lower than in recent years.

Oman's strategic location and its willingness to cooperate with the United States make it a vital friend that is deserving of our assistance. Gulf oil that is exported by sea through the Strait of Hormuz goes through shipping channels that are inside Omani territorial waters. Oman is modernizing its military to defend against possible threats from Iran to contribute to regional defense as a member of the Gulf Cooperation Council. It has also granted the United States limited peacetime and extensive emergency access to its military facilities, enabling the U.S. to meet threats to its vital interests and those of its Arab friends in the Gulf region.

Aid to Israel

We believe that the $3 billion in economic and military assistance proposed for Israel--more than $726 for each of its 4.1 million people--is unjustifiably high. While we realize that enormous aid levels for Israel have become the norm in recent years, allocating such amounts to a country whose per capita GNP is $5,370 and whose people live quite affluently by world standards, is not in the best interests of the United States. The contrast between our generosity for Israel and our treatment of its Arab neighbors is particularly apparent in the meager sums of U.S. aid requested for the Israeli occupied West Bank and Gaza--which need aid desperately.

The aid request for Israel, which is at the same level as the request for fiscal year 1986, comes at a time when Americans are going through an agonizing period of budget cutting under the Gramm-Rudman-Hollings deficit reduction act. Many Americans are resentful of the fact that we are being asked to make sacrifices while the U.S. Government is not

insisting that Israel should make equal sacrifices. A year ago, high aid levels for Israel were requested because Israel's economy was in a virtual shambles. Yet these same levels are being requested for fiscal year 1987 even though Israel has had some success in coping with its economic problems.

We consider the aid allocations for Israel to be too high on their own merits. It is worth noting also, however, that certain Israeli actions in the course of the last year call into question the wisdom of bestowing such generous amounts of aid on Israel. First, Israel continues to maintain a military presence--after almost four years--in Lebanon. It continues to arm and maintain a surrogate militia force, the "South Lebanon Army," in a so-called "security zone" on Lebanese soil and has on several occasions gone beyond that "security zone" to illegally harrass and punish Lebanese who continue to militarily oppose an Israeli presence in Lebanon. Israeli policies in the West Bank and Gaza, including deportations of some of its inhabitants, have also not been helpful to the chances for peace.

For all of these reasons, we urge that the aid levels to Israel be reduced. But even if this subcommittee does not see fit to reduce these levels, we urge that it ensure that Israel, like all other countries, bear its fair share of foreign aid cuts required under the Gramm-Rudman-Hollings act.

Senator KASTEN. Mr. Sadd, thank you very much.

Incidentally, I don't mean to detract from your point, because when you take base rights countries plus Camp David countries, all of a sudden we jam everything else, including some of the population programs, and other things that others were testifying about today.

I just want to remind you that Morocco is among the base rights countries. In that group, we have the peace process countries, Egypt, Israel, and then in the base rights countries, we have Djibouti, Morocco, Oman, and Sudan.

Mr. SADD. Those are the countries that we are concerned about.

Senator KASTEN. They have been grouped in the so-called base rights category. Now, who knows, we might have to renegotiate some base rights, too. But the point that you are making is still correct that some of the countries that you are concerned about are, in fact, base rights countries that fall under the protection that you outlined.

Mr. SADD. That is an important point.

Senator KASTEN. We are squeezed, and to the degree that we lose our flexibility because of agreements that our governments have signed back and forth, or things like Camp David, we do end up with a larger amount of percentage reduction falling on the people who are not protected. So your point is still well taken.

Mr. SADD. Thank you, Mr. Chairman.

Senator KASTEN. Thank you.

Our next witness this afternoon is Father William J. Byron, president of Catholic University, and vice president of the board of directors for Bread for the World.

BREAD FOR THE WORLD

STATEMENT OF FATHER WILLIAM J. BYRON, S.J., ON BEHALF OF BREAD FOR THE WORLD

Father BYRON. Thank you, Mr. Chairman.

I want to begin by thanking you for your work on several issues of interest to Bread for the World over the past year: Your support of appropriations for Child Survival through USAID's health account; also your attention to the needs at USAID for professional health staff to implement these policies; and also to help address a concern of Bread for the World that development funds be used efficiently; and your leadership in pressing the multilateral development banks to pursue policies that are environmentally sustainable, again another concern of Bread for the World, you have been working on it and we are grateful.

Bread for the World, Mr. Chairman, our first concern for foreign aid programs in fiscal year 1987 is that greater priority be given to programs supporting development in the underdeveloped countries by focusing on the needs and priorities of those countries for poor persons, and supporting their efforts to improve their well-being.

Accordingly, the testimony that will be in the record, and that I will summarize now, outlines our position, stressing priorities for AID spending in fiscal year 1987, including concerns about military aid and economic support funds.

Second, special development programs, health and Child Survival aid, and agricultural aid to Africa; and third, measures to improve the effectiveness of developmental assistance.

We urge Congress to reverse the priorities expressed in the fiscal year 1987 budget by reducing military aid and the Economic Support Fund funding, while protecting development aid programs from reductions.

On military assistance, the President's fiscal year 1987 budget calls for an 18 percent increase in military aid funding, from $5.7 to $6.7 billion, including a substantial increase in military aid grants through the military assistance program, the principal program providing military aid to the poorest countries.

Bread for the World opposes the buildup of military aid spending in the 1980's not only because it competes with resources for development programs, which we, of course, support, but also because we believe that military aid harms impoverished people in many of the recipient countries, and that such aid is not effective in advancing U.S. interests in a peaceful, stable, democratic, and economically developing world.

On the Economic Support Fund, Bread for the World has consistently opposed any increases in the Economic Support Funds. We continue to believe that ESF is not the most effective use of U.S. economic aid funds, and believe that any reductions in economic aid should come from ESF.

Let me offer just a few points in support of the contention.

First, most ESF aid is not for development aid. The portion of ESF that does support development projects is not governed by the poverty

orientation legislation of section 102 of the Foreign Assistance Act, which governs development aid. Then, ESF is not provided primarily to the poorest countries, those most in need of assistance.

On our development assistance priorities, first, Child Survival funds, and then, second, aid to Africa through the International Fund for Agricultural Development, IFAD.

I would like to draw the subcommittee's attention to two development programs where we believe, even in a year of restricted foreign aid resources, the United States would be well-advised to invest additional funds. First, health, Child Survival, and immunization programs.

One of the 100 million children born each year in the Third World, 14 million, one out of seven, will die before the sixth birthday. The major prevention tool is vaccination. More than 40 countries are now participating in an international effort to increase substantially the number of children vaccinated against childhood diseases. of course, we support that effort, and I know you do also.

The Universal Child Immunization bill, S. 1917, which would provide a $50 million increase in the Child Survival Fund. we support that as the U.S. contribution to this effort.

While support of the worldwide immunization drive should be the leading edge of the U.S. international health aid in fiscal year 1987, we should not neglect funding for UNICEF, or for the USAID health account.

We urge support for these accounts at current levels, in particular, we don't believe that these accounts should be reduced in order to provide funding for immunization. UNICEF has also earned our strong support, and we urge the subcommittee to continue to show your support for UNICEF by protecting the U.S. contribution to its budget from any reduction.

The second point, development assistance and agricultural aid to Africa through the IFAD special program for Africa. Mr. Chairman, last year, our testimony before this subcommittee mentioned three concerns relating to IFAD—that its second replenishment be successfully negotiated; that funds be appropriated for a first U.S. payment toward that replenishment; and that the United States make a contribution to IFAD's special Africa program.

I am pleased that two of those objectives have been met. Congress showed its support for IFAD by appropriating, in advance of the completion of the negotiations, $30 million as a first U.S. payment. In January, the United States, other donor countries and the OPEC nations reached an agreement that ensures the continuation of IFAD's uniquely poverty oriented agricultural aid, albeit on a smaller scale than under the first replenishment.

This year, I would like to focus on the need to appropriate, in addition to a second payment toward the IFAD replenishment, funds for a contribution to the IFAD's special program for Africa.

In our judgment, the most effective single step the United States could take to assist agricultural recovery and development in Africa is

to make a contribution beyond its pledge to the second replenishment to IFAD's Africa program. A $50 million contribution, this year, would be added to contributions already made by France, Belgium, the Netherlands, Denmark, Norway, and would likely lever additional funds from other donor countries such as Japan and Great Britain.

For this reason, we are encouraged by the provision made for IFAD, as well as other agricultural aid programs, in S. 2208, the African Famine Recovery and Development Fund Act, which you and Senator Kennedy have introduced. We are grateful for that.

My time has run out, and the rest is there for the record.

[The prepared statement of Father Byron follows:]

bread for the world
a christian citizens' movement in the usa

PREPARED STATEMENT OF WILLIAM J. BYRON, S.J.

Mr. Chairman, my name is William Byron. I am Vice-President of the Board of Directors of Bread for the World, and President of the Catholic University of America. It is a pleasure to present the views of Bread for the World before your subcommittee once again this year.

Bread for the World is a 50,000 member Christian citizens organization in the United States, working to address the causes of hunger by influencing U.S. policies that affect hungry people. Because foreign assistance is such an important part of U.S. policy toward the developing countries, where some 700 million people continue to live in hunger and absolute poverty, your subcommittee's leading role in foreign aid issues is of great interest to our members.

Before I outline Bread for the World's views, I want to take a moment to thank you, Mr. Chairman, for your work on several issues during the last year. Your support for appropriations for Child Survival activities through the USAID health account, UNICEF, and the Child Survival Fund was of central importance in securing FY 1986 appropriations that show the high priority Congress assigns to such aid. Your attention to the needs at USAID for professional health staff to implement these policies also helped address a concern of Bread for the World that development funds be used efficiently. And your continuing leadership in pressing the multilateral development banks (MDBs) to pursue policies that are environmentally sustainable has been a source of encouragement to those of us concerned about the impact of MDB projects on impoverished people. We look forward to continuing to work with you and your subcommittee on these and other aid issues.

Mr. Chairman, Bread for the World's first concern for foreign aid

programs in FY 1987 is that greater priority be given to programs supporting development in the underdeveloped countries by focusing on the needs and priorities of those countries' poorest people, and supporting their efforts to improve their well-being. Accordingly my testimony outlines our positions, stressing:

1. Priorities for aid spending in FY 1987, including military aid and the Economic Support Fund.
2. Special development programs: health/child survival aid, and agricultural aid to Africa.
3. Measures to improve the effectiveness of development assistance.

I. Priorities for foreign aid in FY 1987: We urge Congress to reverse the priorities expressed in the FY 1987 budget by reducing military aid and ESF funding while protecting development aid programs from reductions.

Military Assistance The President's FY 1987 budget calls for a 18% increase in military aid funding, from $5.7 billion to $6.7 billion, including a substantial increase in military aid grants through the Military Assistance Program (MAP), the principal program providing military aid to the poorest countries. Bread for the World opposes the buildup of military aid spending in the 1980s not only because it competes for resources with development programs which we do support, but also because we believe that military aid harms impoverished people in many of the recipient countries, and that such aid is not effective in advancing U.S. interests in a peaceful, stable, democratic and economically developing world.

Military aid and the military buildup it helps to underwrite retards the efforts of poor people in recipient countries to improve their wellbeing. Sophisticated weaponry makes warfare in the Third World increasingly disruptive and deadly. A recent U.N. report states that war, not drought, is now the principal cause of famine in the four African countries where 80% of Africans still threatened by famine live. (Reported in the Washington Post, March 27, 1986.) In each of the four countries, Ethiopia, Sudan, Angola and Mozambique, fighting is being

supplied by outside sources of weapons: The Soviet Union, Cuba, South Africa, and the United States. War has the same effects elsewhere in the Third World, affecting on a less dramatic scale the development efforts of impoverished people.

The United States is not the sole - or even the leading - supplier of arms in Africa. Bread for the World opposes military aid and intervention by other arms suppliers as well, and believes that reductions in U.S. aid should be accompanied by efforts to put pressure on other suppliers to reduce sales and aid in Africa and elsewhere. Reductions in military aid won't end warfare, any more than military aid alone causes it. But any decrease in the destructive power of the arms available in the many conflicts in the Third World today will relieve some of the suffering war inflicts on the people of the developing countries.

Military aid has also supported governments that pursue policies inimical to the interests of their own poor citizens. U.S. military aid has indirectly supported the Indonesian invasion and repression of East Timor, underwritten the regime of former Philippine President Marcos, whose lack of popular support is amply demonstrated by the recent change of government, and strengthened the role and claim on the national budget of military forces in many developing countries. Economic research has shown that this dominant role of the military has serious effects on agricultural and other investments: MIT economist Lance Taylor notes that for each dollar of military spending in a developing economy, agricultural production, on average, is reduced by twenty cents, domestic investment by twenty-five cents. (The New York Times, December 22, 1981.)

We do not believe that the current high level of military aid is justified by its impact on U.S. interests abroad. The interests of a stable, democratic government are hardly served, for instance, by the enlarged military aid program proposed for Ecuador, where several generals threw the country into a state of emergency earlier this year by threatening a coup against the country's democratically elected

government. Military and economic aid have not been enough to support other friendly governments, such as the former governments of Ethiopia, Iran and the Philippines. In each country,the intolerable economic conditions and the gross maldistribution of wealth, supported by the authority of the armed forces, were important factors in the overthrow of the government. Military support for governments is not the best tool the United States has for advancing either its own interests or those of the poor in the Third World. Well-designed development aid is a better investment in peace, stability and development than is military aid.

Economic Support Fund Bread for the World has consistently opposed increases in the Economic Support Fund (ESF). We continue to believe that ESF is not the most effective use of U.S. economic aid funds, and believe that any reductions in economic aid should come from ESF. Let me offer three points in support of this contention:

1. Most ESF aid is not for developmental aid, but provides cash or commodity import aid that serves to support economic policies not necessarily in the interests of poor people.

2. The portion of ESF, roughly one-third, that does support development projects, is not as strictly governed by the poverty-orientation legislation of Section 102 of the Foreign Assistance Act, as is development aid. Assessments of economic aid packages to developing countries show that the poverty-orientation of the economic aid package tends to be lower in countries where project aid is made up of both development aid and ESF, than in countries where development aid is provided. (Rural Development Institute, The Quality of Foreign Aid, June, 1984.)

3. ESF is not provided primarily to the poorest countries most in need of assistance. $2.2 billion of the $3.5 billion FY 1986 ESF program -- 62% -- is sent to countries with per capita incomes greater than $1000, and most of the remainder goes to one country, Egypt. Bread for the World recognizes that the purposes of U.S. aid programs are varied, and that ESF is designed to meet objectives other than poverty

alleviation. But because we believe that addressing the causes of poverty and hunger is the most important step that the United States can take to promote a secure and prosperous world, we urge that increasing priority be given to development aid programs, and that ESF allocations be reduced as necessary.

II. Development Assistance Priorities: Child Survival Fund and aid to Africa through the International Fund for Agricultural Development (IFAD)

Mr. Chairman, I want to draw the subcommittee's attention to two development programs where we believe, even in a year of restricted foreign aid resources, the United States would be well-advised to invest additional funds.

Health, Child Survival and Immunization Programs Of the 100 million children born each year in the Third World, 14 million, one of seven, will die before their sixth birthday. These children can and should be saved. A major world-wide effort is now underway to save these children. One of its major tools is vaccination. More than 3.5 million children die each year because they are not vaccinated against common childhood diseases. Two million succumb to measles, one million die because mother or child was not vaccinated against tetanus.

More than forty countries are now participating in an international effort to increase substantially the number of children vaccinated against childhood diseases. We support this effort, and the Universal Child Immunization bill, S 1917, which would provide a $50 million increase in the Child Survival Fund, as a U.S. contribution to this effort.

While support of the worldwide immunization drive should be the leading edge of U.S. international health aid in FY 1987, we should not neglect funding for UNICEF, or for the USAID health account. We urge support for these accounts at current levels. In particular, we do not believe that these accounts should be reduced in order to provide funding for immunization. Both support important health activities in

addition to immunization. Research by the Rural Development Institute finds health aid to be by far the most effecttive of the USAID development accounts. The RDI review rates health aid consistently higher than other USAID programs in terms of benefits for poor families, costs per family benefitted, and potential replicability for other areas in the recipient country.

UNICEF has also earned our strong support, serving as a catalyst for many years for important worldwide child health campaigns. UNICEF has shown great vision and -- a rare combination -- effective attention to detail in promoting and helping to implement the child health revolution. We urge the subcommittee to continue to show your strong support for UNICEF by protecting the U.S. contribution to its budget from any reductions.

We would like to express our appreciation to USAID and to UNICEF for their efforts on behalf of the world's children. I also want to extend our thanks to you, Mr. Chairman, and to Senators Inouye, DeConcini, Leahy, Hatfield, D'Amato, and Rudman for their particularly active support, on this subcommittee, for international health assistance.

Finally, we do value this subcommittee's oversight function, and we support your efforts to scrutinize these health aid programs and others that we favor. Poor people are not well-served by ineffective programs.

Agricultural Aid to Africa through the IFAD Special Program for Africa

Mr. Chairman, last year our testimony before this subcommittee mentioned three concerns relating to IFAD: that its second replenishment be successfully negotiated, that funds be appropriated for a first U.S. payment toward that replenishment, and that the United States make a contribution to IFAD's special Africa Program. I am pleased that two of those objectives have been met: Congress showed its support for IFAD by appropriating, in advance of the completion of the negotiations, $30 million as a first U.S. payment; and in January the United States, other Western donor countries and the OPEC nations reached an agreement that ensures the continuation of IFAD's uniquely poverty-oriented

agricultural aid, albeit on a smaller scale than under the first replenishment.

We are grateful for your suppport for the IFAD appropriation, and your efforts, and those of other members of this subcommittee, particularly Sen.Inouye and Sen. Hatfield, who has long led the Senate's support for IFAD, in helping ensure that a second replenishment was negotiated.

This year I wish to focus on the need to appropriate, in addition to a second payment toward the IFAD replenishment, funds for a contribution to the IFAD Special Program for Africa. IFAD's proposed $300 million Africa program, toward which more than $150 million has already been pledged by European donors, has as its focus five priority grassroots initiatives in Africa:

"-provide seed, tools and fertilizer to small farmers immediately affected by drought;
- assist production of traditional drought-resistant crops such as cassava, sorghum, millet and tubers;
- promote small-scale water conservation and supply systems;
- develop local agro-forestry, soil conservation and ecological protection programmes;
- reinforce policies and institutions that stimulate production by Africa's small farmers."
(IFAD, "Africa: Sowing the Seeds of Self-Sufficiency," 1985)

IFAD's record as a provider of agricultural aid that addresses the food production needs of small landholders and landless workers and affects the national food policies of recipient countries has been documented by a thorough USAID review, as well as reviews by the Canadian and West German aid agencies. In our judgment, the most effective single step the United States could take to assist agricultural recovery and development in Africa, is to make a contribution beyond its pledge to the second replenishment to IFAD's Africa Program. A $50 million contribution this year would be added to contributions already made by France, Belgium, the Netherlands, Denmark,

Norway, and would likely leverage additional funds from other donor countries, such as Japan and Great Britain.

For this reason we are encouraged by the provision made for IFAD, as well as other agricultural aid programs, in S. 2208, the African Famine Recovery and Development Fund Act, which you and Senator Kennedy have introduced. By establishing the statutory framework and making the authorization needed for a more comprehensive aid policy to Africa, S. 2208 provides an important step toward a more adequate response to Africa's economic and food crisis. We urge the subcommittee to take the additional step of appropriating funds this year for a contribution to the IFAD Africa Program.

III. Measures to Improve the Quality of Development Assistance

There is an increasing skepticism about the effectiveness of development aid programs in the Congress, the press, among students of international development, and the public at large. Bread for the World welcomes a skeptical and critical examination of development aid. Whether it is brought on by continuing food production problems in Africa or by the seeming failure of large aid investments to open economic opportunities for the poor majority of politically volatile nations in Latin America, the critique embodies a concern which we share, namely, that development aid funds be spent in ways that maximize the opportunities for employment, agricultural self-sufficiency, and general well-being of impoverished people in underdeveloped countries.

We suggest four priorities for development aid spending and policy in FY 1987 which we believe will help to maximize the impact of development spending on poverty and chronic underdevelopment in the Third World.

1. Priority status for selected aid programs, based on their record in poverty-alleviation. In addition to the programs cited earlier in our testimony (IFAD, UNICEF, the USAID health account and Child Survival Fund), we urge that particular attention be given to:

- UNIFEM, the United Nations fund focused on development assistance to women;
- The Inter-American Foundation and African Development Foundation, two bilateral programs supporting grassroots development efforts by funding initiatives designed and directed by local groups;
- The small-projects window of the Inter-American Development Bank.

2. Increased emphasis on small-scale credit to small entrepreneurs, farmers, and landless laborers. Access to credit, often not available to the poor through national banking systems, has often been shown to be a key factor in enabling both urban and rural people to increase their earnings, quality of life, and productivity. Farmers and self-employed urban dwellers, who usually lack collateral, are often forced to resort to money-lenders charging usurious interest rates as their only source of credit in difficult times. Once indebted, they are often caught in a cycle of indebtedness and poverty, living on the margin of survival while paying the fruits of their labors to ever-ready creditors. Aid projects that support efforts to make networks of credit available to impoverished people have proven to be effective, demonstrating, as have the IAF and ADF, that poor people are seldom at a loss to find ways to improve their own well-being, if certain basic resources are available.

We would be eager to work with you, Mr. Chairman, to devise ways to encourage a higher priority to such small-scale credit programs in aid agencies, including USAID and the multilateral development banks (MDBs).

3. Greater U.S. assistance for land reform. Land, like credit, is a scarce resource for impoverished people in many Third World countries. The implications of highly skewed land distribution in many Latin American, Asian, and some African countries have included persistent rural poverty, environmental degradation due to intensive farming of the marginal lands to which the poor people are relegated, and continuing social unrest. As U.S. aid policies increasingly seek to influence national development policies, land reform should be a priority for USAID. The opportunity presented by the change of government in the Philippines makes land reform in that country a possibility toward which the U.S. should work.

4. Continued pressure on USAID andthe MDBs for projects that stress poverty alleviation and are sensitive to environmental issues and the rights of indigenous people. Mr. Chairman, your leadership in efforts to force the World Bank and Inter-American Development Bank to develop policies more sensitive to environmental needs has been a great service in the effort to improve the quality of development aid. We urge you to continue these efforts to shape MDB policies that do not undercut and destroy the resources on which rural people build their livelihoods.

Bread for the World believes that our long-held concern for the poverty-impact of MDB and USAID projects is closely linked to these issues of environmental impact and sustainability. Projects that give first priority to increasing opportunity for relatively and absolutely poor people, and are responsive to these people's expressed priorities, will benefit from local people's knowledge of their own environment and production methods. We are pleased to note the efforts this year by several members of Congress, including Senators Rudman and Specter of this subcommittee, to press the World Bank and the U.S. Department of Treasury to devise strategies that will increase the poverty-orientation of MDB projects and structural adjustment loans.

We are disappointed to note that the Inter-American Development Bank's (IDB) Annual Report for 1985 assesses their own lending as providing 33% of its resources to projects that directly benefit poor people, against a 50% target established by the Bank and by U.S. legislation. One step toward remedying this would be strong language in this subcommittee's bill or report, pressing the IDB to devote greater resources to its small project window.

We recognize the difficulty of monitoring and influencing MDB lending. But we believe that this and other steps can be taken to increase the value of U.S. contributions to the MDBs, and we are eager to work with the members of the subcommittee in devising and implementing such strategies.

Senator KASTEN. Father Byron, thank you.

First of all, I think you are aware of the controversy we have had back and forth with IFAD. It hasn't been so much the job they are doing, but the effort that we are trying to make to get the percentage contribution closer to the way it was envisioned when people worked to establish IFAD.

I think, frankly, we have made a little progress in that way; that plus some of the overhead expenses and other kinds of things, I think, overall, we have been able to make some progress. We are working now more closely with IFAD, and the levels, as you have noted, are higher.

Father BYRON. We like it because of the focus on the small farmer, and bringing the aid assistance in closer to the poorest, those in greatest need.

Senator KASTEN. As you pointed out in your statement, the subcommittee has, and I personally have worked on the Child Survival Fund, UNICEF, and others of these programs. Sometimes, your members out in Wisconsin don't get that message, and I am still the subject of negative church bulletins somehow, but we are working. I don't think your group is as active on that as they were a few years ago.

I know that you were part of those discussions, and I hope that somehow—it is wonderful to listen to what you say in your prepared testimony, but at the same time, you can almost reverse this in terms of what some people who associate themselves with your group say about my activities as chairman of the subcommittee. It is of concern to me, and I would hope that it would be of concern to you also.

Father BYRON. It is, and I will relay the concern to staff here in Washington, and make sure that the testimony that we presented, including the credits we have given you for your support in the past, be brought to the attention of the people in Wisconsin. That is easily done.

Senator KASTEN. Particularly the work that we have done on health professionals, you have mentioned that. I think that we are making some progress.

We do, obviously, and all afternoon people have been concerned about the budget difficulties that we are faced with, and we are hopefully going to work our way through them, but the subcommittee enjoyed working with you and Bread for the World, and we will continue to try to work for the kinds of priorities and programs that you so effectively testified in favor of today.

We thank you for your testimony before the subcommittee.

Father BYRON. Thank you, Senator. We will be happy to respond any time we can.

Senator KASTEN. I would like to thank all of the witnesses for their testimony here today, and for their patience. The record will remain open for 1 week during which time additional statements may be inserted for the record.

SUBCOMMITTEE RECESS

This concludes today's hearing. The subcommittee will stand in recess until April 22, when we will receive testimony from the Department of State.

[Whereupon, at 5:12 p.m., Thursday, April 17, the subcommittee was recessed, to reconvene on April 22, 1986.]

Material Submitted Subsequent to Conclusion of Hearing

(CLERK'S NOTE: The following prepared statements were submitted subsequent to the hearing and will be placed in the record at this point):

Prepared Statement of Hon. Bill Bradley
U.S. SENATOR FROM NEW JERSEY

MR. CHAIRMAN, I appreciate this opportunity to ask the Committee's assistance in providing universal access to immunization for the world's children. I would like to thank you, MR. CHAIRMAN, for the support and interest that you have demonstrated for universal childhood immunization efforts.

Last year, MR. CHAIRMAN, with your support as an original cosponsor the Senate adopted Concurrent Resolution 78, affirming our Nation's commitment to humanitarian efforts on behalf of the world's children. On December 9, 1985, with my colleagues Senator Matsunaga and Senator DeConcini, I introduced S.1917, the Universal Childhood Immunization Act. This bill now has 38 cosponsors and is a bipartisan effort to prevent children from needlessly dying from diseases we know how to prevent with simple vaccination. Companion legislation introduced in the House of Representatives by Congressman Hall, H.R. 3894, currently has 153 cosponsors.

MR. CHAIRMAN, Americans are a generous and caring people.

When the world is beset by tragedy--whether caused by a volcanic eruption in Colombia, a toxic chemical accident in Bhopal, or drought and famine in Africa--Americans have immediately responded with aid and compassion.

Yesterday, MR. CHAIRMAN, a tragedy struck which dwarfs these disasters. Yesterday--and each day--ten thousand children died. There are no media accounts of this silent international disaster; it hardly qualfies as news. Ten thousand parents will watch their children die today and tomorrow and each day; 3.5 million children die each year. More tragic than the 3.5 million young lives that are lost is the fact that it is all so easily avoidable. These children are victims of six diseases for which effective immunizations exist: polio, measles, whooping cough, diptheria, tetanus, and tuberculosis.

Looking to the future, if we do not act and immunizations remain at current levels for the next ten years, the toll on the world's children will be staggering. More than 2.5 million more children will be permanently disabled by polio. Twenty million children more will die needlessly from measles, a disease that is preventable with a single injection.

Achieving universal access to childhood immunization requires a serious commitment on the part of all the world's nations. The immunization of young and defenseless children to shield them from death and lifelong disability is the most urgent of humanitarian goals. All civilized nations must refuse to accept the current magnitude of preventable child deaths.

We must, however, carefully consider the appropriate role for the United States in this global effort. The United States

is not being asked, nor should it take on, the sole responsibility for immunizing the world's children. Rather, the United States should be centrally involved in international cooperative efforts. The legislation that I introduced will assist developing nations in implementing and maintaining locally sustainable delivery systems. Developing nations will contribute approximately 80% of the resources necessary to immunize their children. They want to develop the independent capability to immunize their own children, but need assistance in achieving this goal. The commitment of developing countries to immunize their children is clear. This year, El Salvador, for example, is again declaring a truce for three designated days so that the children of the country can be immunized against disease. Burkina Faso, one of the poorest nations in the world, has commited its resources to immunizing its children. Many other nations in the developing world have devoted their scarce resources and have made significant progress in child immunization programs.

In these days of serious budget constraints, careful consideration must be given to how we allocate our resources. My legislation calls for $50 million to be devoted to universal childhood immunization. Immunization is a cost effective strategy. In the industrialized world, every $1 spent on vaccination saves approximately $14 in preventive and rehabilitative costs. In the developing world, it is much higher. In nations such as the Ivory Coast, for every $1 spent on immunizations, approximately $20 in medical and rehabilitative costs are saved.

The example of the smallpox erradication campaign stands as a model of the cost effectiveness of immunization. In 1967, smallpox killed an estimated 2 million people. Ten years later, the world recorded the last case of smallpox. With the eradication of this disease, the United States was able to

discontinue the routine smallpox vaccinations that most of us experienced and the public health procedures that the innoculation program required. A total $32 million investment in the eradication program has resulted in annual savings of $120 million.

MR. CHAIRMAN, any death of an infant is a tragedy; the millions of babies who die each year needlessly is staggering. But we don't have to let that continue to happen. We know how to stop it. And the cost is relatively modest. All that remains is whether we have the will to act. I hope this Committee will help show that the answer is "yes."

STATEMENT OF DALE S. DE HAAN

DIRECTOR

IMMIGRATION AND REFUGEE PROGRAM

CHURCH WORLD SERVICE

Mr. Chairman, members of the Appropriations Subcommittee on Foreign Operations, there are this year ever-increasing numbers of refugees around the world in need of protection, assistance, resettlement, and rehabilitation. The Migration and Refugee Assistance account is critical to our country's ability to respond to these needs. We view these funds as truly necessary to the effort of ensuring appropriate programs of life-saving refugee rescue throughout the world.

We are quite well aware of the budget pressures placed upon us all in 1986. It is our intention by this statement to convey to you the strong support within our member Protestant communions for the refugee program as one which responds not just to basic human needs, but in most cases also to basic human survival. Our 31 member Protestant bodies encompassing over 33 million church members have been strong supporters of refugee programs overseas, as well as the resettlement of refugees at

home. Since its founding 40 years ago, we have resettled through churches over 400,000 refugees.

We offer four observations which we believe to be particularly relevant to the Migration and Refugee Assistance account today.

First, the burden for caring for refugees is one which is internationally shared. Indeed, the U.S. government contribution to international refugee programs is higher than that of any other government. However, the United States rates fifth internationally in contributions per capita to international programs of refugee assistance. Americans contributed through their taxes $0.80 for such programs in 1985, while Norwegians contributed $4.43 1.

In resettlement terms, international burden sharing also exists. Over the past ten years, the United States has resettled approximately 950,000 refugees, one refugee for every 252 persons in our population 2. While again in overall terms we have resettled more than any other country, in resettlements as a ratio of overall population, the United States rates seventh internationally.

Second, the protection which this account affords is something without which refugees could not survive. Refugees in many parts of the world find themselves in life-or-death situations. This is true of areas of Central America, Southern Africa, Southeast Asia, as well as other locations. Refugee protection is a fundamentally important role which the Bureau for Refugee Programs plays. The Bureau does so along with the U.N. High Commissioner for Refugees (UNHCR), who possesses the international refugee protection mandate and receives U.S. funding through this account.

The international refugee protection mandate of the UNHCR is one which the Subcommittee should constantly reinforce. As refugees continue to find themselve trapped in highly charged conflict situations, support for the protection function of the

UNHCR, as well as appppropriate interventions by the U.S. Government, should remain a priority. Diplomatic demarches orchestrated by the Bureau for Refugee Programs and the UNHCR, as well as the physical presence of UNHCR officers in the midst of tenuous refugee situations, has saved the life of many a refugee.

Third, this account enables a long-standing partnership between the public and private sectors in the resettlement of refugees in the United States. Once a refugee is accepted for resettlement in the U.S., that refugee is permitted entry upon the receipt of sponsorship. In the case of Church World Service, such sponsorship is performed through our member religious denominations. The Bureau for Refugee Programs provides a "reception and placement" grant of $560 per refugee resettled to help offset some of the initial costs of resettlement.

However, each of these federal dollars frees up many more from the private sector. A comprehensive survey by Church World Service revealed, for example, that congregations which sponsored refugees through Church World Service contributed over $133 million over the three and a half year period from FY 1980 through the first half of FY 1983 3. In the same period, Church World Service received approximately $7 million in per capita grants from the Bureau for Refugee Programs. This truly outstanding contribution by the private sector to refugee resettlement is evidence not only of the effectiveness of federal support in freeing up private dollars, but also is representative of the deep commitment in the church community to the resettlement of refugees in this country.

Finally, we point out the critical need to support efforts to rehabilitate refugees overseas. This account provides an opportunity to enable self-sufficiency programs particularly in parts of Africa. These programs have taken place on a limited scale over the past few years, as suggested by a recent State Department report on the Second International Conference on Assistance to Refugees in Africa (ICARA II) 4 which was supplied

at the request of this Committee. The Bureau for Refugee Programs enables limited programs of self-sufficiency by funding the multi-lateral programs of the UNHCR as well as some projects operated by private voluntary organizations.

Perhaps the most effective action which the Subcommittee can take at this time would be to ensure that development plans for countries heavily impacted by refugee populations include calculations for accomodating the refugee presence. This would involve very explicit cooperation between various U.S. Government entities, primarily between the Bureau for Refugee Programs and the U.S. Agency for International Development. For example, the USAID Country Development Strategy Statements for countries such as Somalia, Sudan, Uganda, or Rwanda should have explicit reference to the rehabilitation needs of refugees within those countries (as well as the economic benefit derived from the refugees' presence, as is true in some situations). Such Statements should be developed in these examples with the expertise of the Bureau for Refugee Programs.

In conclusion, Mr. Chairman, we reiterate the strong support within the religious community for the activities enabled by this important account, for which we urge the Subcommittee's support.

ENDNOTES

1 U.S. Committee for Refugees, World Refugee Survey: 1985 in Review, p. 48.

2 World Refugee Survey, p. 48.

3 Immigration and Refugee Program, Church World Service, Making It On Their Own: From Refugee Sponsorship to Self-Sufficiency, December 1983, p. 69.

4 U.S. Department of State, "ICARA II", transmitted to Appropriations Committee members on March 14, 1986, under cover of a letter from James W. Dyer, Acting Assistance Secretary, Legislation and Intergovernmental Affairs.

Natural Resources
Defense Council

TESTIMONY
OF
DAVID A. WIRTH

Mr. Chairman, I am David A. Wirth, Senior Project Attorney with the Natural Resources Defense Council ("NRDC"), a nonprofit environmental organization with more than 55,000 members in every state. I appreciate very much the opportunity to testify before this Subcommittee concerning fiscal year 1987 appropriations for the multilateral development banks ("MDBs").

NRDC has been working for more than a decade to encourage environmentally sound sustainable development. For the past several years, NRDC's work has focused on the environmental consequences of MDB projects. Mr. Chairman, your Subcommittee's attention to the environmental consequences of MDB projects has been invaluable in the past. However, much more remains to be done, and we look forward to working with this Subcommittee in the future.

NRDC supports the Administration's requested MDB appropriation for FY 87, which already represents a decrease over FY 84 and FY 85 levels. We are concerned that additional reductions in U.S. contributions for these institutions at a time when many developing countries are experiencing severe hardships could have significant adverse repercussions for the peoples of developing countries.

However, our support is not unqualified. We continue to be gravely concerned about the types of projects designed and financed by the MDBs when measured against standards of

sustainable development and rational management of natural resources. It is vital that this Subcommittee's recommendation as to U.S. contributions to the MDBs be conditioned upon the U.S. Government's encouraging improved performance by these institutions.

The World Bank's Livestock III Project in Botswana

Recently developed information about a World Bank livestock project in Botswana approved just a few months ago plainly demonstrates that substantial further improvement is necessary. One of the principal industries in Botswana, a country in semiarid Africa with a population of approximately 1 million in 1983, is livestock production. The European Economic Community ("EEC") provides Botswana with preferential access to European markets and an annual quota of at least 19,000 tons of beef. The ready availability of European markets, with prices higher than in much of the rest of the world, provides substantial pressure for increases in the livestock sector in Botswana. Overgrazing of cattle has resulted in a significant deterioration of Botswana's rangeland resources.

Although NRDC is undertaking additional research on this project, there are strong preliminary indications that the World Bank's involvement in Botswana to date has exacerbated rather than alleviated Botswana's environmental problems. The World Bank in 1973 undertook a project, known as "Livestock I," designed to establish leasehold beef ranches and sheep farms. After cost overruns of nearly 60%, the Bank concluded that the project had been basically unsuccessful and had produced a negative economic rate of return.[1]

In 1975, the Government of Botswana instituted a major land tenure reform known as the Tribal Grazing Lands Policy ("TGLP"). Land boards were directed to apportion tribal lands,

which constitute 65% of Botswana's territory, into one of three categories: "commercial," which would be allocated to fenced leasehold ranches; "communal," which were to be common areas around villages; and "reserved," where no immediate development was permitted, except wildlife management schemes. The World Bank undertook to support the implementation of TGLP principally in the commerical sector through its Livestock II project initiated in 1977. The World Bank's own consultants found that

> [T]he project has no ability to increase cattle production as marketed offtake ... It has no ability to halt or reduce damage to range resources -- if anything, the reverse. It has no ability to avoid, let alone counter, such negative social effects as widening the income gap between rich and poor, permanently concentrating the country's land resources in the hands of a tiny percentage of its occupants, and depressing the already limited subsistence capabilities of its poorer citizens.... [W]ithout the benefit of the doubt it seems unlikely that any African livestock development project would ever be funded.[2]

Against the backdrop of its two previous failures in Botswana, the World Bank in December 1985 signed a loan agreement for a third livestock project in that country. The project anticipates a 40% increase in beef production over a 15-year period. The U.S. Agency for International Development's ("A.I.D.'s") mission in Botswana submitted the following scathing criticism of the proposed project:

> As currently designed the proposed project will have no ability to increase cattle production as marketed offtake or to stop the degradation of range resources. The [Government of Botswana's] policy on the Tribal Grazing Lands Policy (TGLP) is contradictory. The 1975 White Paper [concerning TGLP] states "the aims are to stop overgrazing and degradation of the veld; to promote greater equality of incomes in the rural areas; and to allow growth and commercialization of the livestock industry on a sustained basis." Unrealistic assumptions behind this policy include: (1) land boards would control stock numbers held by individuals (no mechanism exists to do this). (2) Land owners would remove their herds from communal areas to start their commercial ranchers [sic]. (3) Cattle production could be "more than doubled" with good management. Legislation exists in Botswana which could ameliorate some of the conditions leading to overgrazing. Under the Agricultural Resources Conservation Act, the government could reduce

> the size of herds. Most leasehold agreements provide for the owners to practice "good management." However, no actions have been taken to assure compliance. Indeed, it is generally recognized that some ranches financed under the first livestock development project are carrying significantly larger numbers of cattle than they should.
>
> ....
>
> Cattle ownership is extremely skewed in Botswana.... Increasing commercialization on TGLP ranches will continue the process of concentration of ownership and if the national herd size remains constant, small herds will become smaller, penalizing the small farmers who depend on draft power for crop farming.[3]

With your permission Mr. Chairman, I would like to introduce this cable, a copy of which is attached as Appendix "A," into the record. Although the information in this cable, which is the result of firsthand experience, should have been given great weight in the evaluation of Livestock III by the U.S. Government, there is no indication that it was considered at all. It is also useful to note for the record that A.I.D., to its credit, is not now involved in livestock projects in Botswana.

There is compelling evidence that many of the defects in the proposed project identified by the A.I.D. mission were not remedied in the final version. Social scientists have strongly criticized TGLP and the Livestock III project for concentrating too heavily on a small category of highly capitalized ranches, for their potential to disrupt traditional herding and pasture management systems, and for ignoring the needs of minority populations of hunter-gatherers.[4] The Bank admits that "large scale fencing of rangeland for commercial and communal grazing land development will undoubtedly hinder traditional wildlife migrations."[5] Competition between livestock and wildlife has already had devastating effects on indigenous animal populations, with hundreds of thousands of wild animals already killed by existing fences.[6] The $17.8 million Livestock III project includes only $21,700 allocated to the strengthening of Botswana's wildlife department, the only portion of the project

not underwritten in part by the Bank.[7] The project contains no protection at all for the unique and sensitive Okavango Delta, one of the most important of the remaining untouched wildlife areas in Africa.[8] To the contrary, the Okavango Delta, which some assert is subject to increasing pressure for utilization as a cattle ranching area, is explicitly included in the project. The project also contains no guarantees that cattle herd size will be controlled, despite the A.I.D. mission's assertion that the required mechanisms are already in place.

Alternatives that could eliminate or mitigate the adverse impacts of Livestock III include small-scale village-level rangeland management schemes, wildlife ranching,[9] and utilization of the Okavango as a tourism resource.[10] Recommendations made to the Kalahari Conservation Society and the World Wildlife Fund have proposed protection of the Okavango through the establishment of a biosphere reserve in northern Botswana as part of an international network of conservation areas.[11]

The Need for Improvement

Problems associated with the Livestock III project are indicative of larger inadequacies in the MDBs' project review process. There is every indication that the World Bank in the case of Livestock III did not consider meaningful alternatives to policies that had already been shown to be counterproductive and unsuccessful in the Livestock II project. Significant criticisms from the social science community appear to have been ignored. Little or no use of loan conditions was made to conserve sensitive areas such as the Okavango Delta. Botswana is one of the few countries in Subsaharan Africa to borrow "hard" money from the Bank, which must be repaid at interest rates based on prevailing international capital markets. Questions as to the appropriateness of a World Bank project, which necessarily would

entail an increase in cattle production to justify borrowing in the first place, appear never to have been raised. Likewise, there appears to have been little if any coordination with other donors to determine whether development aid options other than a World Bank "hard" loan would have provided a better approach to improve management of Botswana's rangelands.

Despite a professed increased sensitivity to environmental concerns raised by MDB projects, the U.S. Government's examination of the Livestock III project was cursory at best. A cable from the A.I.D. mission in Botswana (attached as Appendix "A") detailing flaws in the project appears to have been overlooked. Although livestock development in semiarid portions of Africa, such as Botswana, is known to involve adverse environmental impacts, the U.S. Government initiated a belated review of this project only after the loan agreement was signed. Defects in the examination of the Botswana project by the U.S. Government highlight the urgent need for the development of criteria to identify projects most likely in need of further environmental scrutiny by the Working Group on Multilateral Assistance and within the Treasury's Office of Multilateral Development Banks.

Further examination of strong preliminary evidence of substantive inadequacies in the Botswana project has been severely handicapped by the MDBs' highly restrictive information practices. It is difficult if not impossible to obtain descriptions of World Bank projects in even the most meager detail. As the Botswana project demonstrates, significant public policy decisions of interest to donor and borrowing countries alike can be made under this shroud of secrecy. With the encouragement of the U.S. Government, the MDBs at a minimum should undertake to make appraisal reports and other documents

containing project descriptions available to the public.

Conclusion

Mr. Chairman, although there has been some progress in making the MBDs more sensitive to the environmental consequences of their projects -- much of it thanks to your efforts and those of this Subcommittee -- much more remains to be done. NRDC supports the Administration's MDB appropriation request because we are convinced that financial disruptions in these institutions would be counterproductive to the peoples of the developing world. However, this Subcommittee should attach explicit conditions to its appropriation designed to facilitate informed scrutiny of MDB projects, including the following general requirements:

1. The Executive should seek to assure that World Bank appraisal reports and other MDB documents containing project descriptions should be made available to the public in timely fashion before the project is approved by the institution concerned; and

2. The Executive, with adequate public participation, should develop criteria for identifying sensitive projects from an environmental point of view for use in evaluating those projects within the U.S. Government.

With respect to the Botswana Livestock III project, this Subcommittee should direct the Executive to undertake a thorough review of alternatives to the project through consultation with experts in relevant disciplines and encourage the World Bank to do the same. As its past efforts have demonstrated, this Subcommittee's continued vigilance will be necessary to assure that both general and specific changes to the MDBs' environmental practices will be effectively implemented.

Mr. Chairman, this concludes my prepared statement. Thank you very much.

FOOTNOTES

1 See Staff Appraisal Report, Botswana: National Land Management and Livestock Project, World Bank Doc. 5471-BT, at 11-12 (Apr. 29, 1985) [hereinafter cited as Livestock III Appraisal Report].

2 S. Bekure & N. Dyson-Hudson, The Operation and Viability of the Second Livestock Project (1497-BT): Selected Issues 2 (Botswana Ministry of Agriculture 1982) (emphasis in original).

3 Gaborone 3439 (Sept. 21, 1984) (cable from A.I.D. mission in Botswana) (copy attached as Appendix "A").

4 See, e.g., R. Hitchcock, Kalahari Cattle Posts, vol. 1 (Botswana Ministry of Local Government and Lands 1978); Lawry, Botswana's Tribal Grazing Land's Policy, in Land Tenure and Livestock Development in Subsaharan Africa (J. Bennett, S. Lawry & J. Riddell eds.) (1984); Peters, Embedded Systems and Rooted Models: The Grazing Lands of Botswana and the "Commons" Debate, in Capturing the Commons (B. McCay & J. Acheson eds.) (in press).

5 Livestock III Appraisal Report, supra note 1, at 24.

6 See Botswana's Wildlife Losing Out to Cattle, Los Angeles Times, Aug. 26, 1984.

7 See Livestock III Appraisal Report, supra note 1, at 21.

8 See generally D. Johnson & A. Bannister, Okavango: Sea of Land, Land of Water (1977).

9 See, e.g., Hopcraft, Nature's Technology: The Natural Land-Use System of Wildlife Ranching, Vital Speeches, May 15, 1980, at 465.

10 See Bogosi, Tourism in Botswana, in Which Way Botswana's Wildlife? 45 (1983) (proceedings of Kalahari Conservation Society Symposium); E. Matenge, The Future of Tourism, in id. at 81.

11 See J. Anderson, Chobe National Park and Moremi Wildlife Reserve: The Fundamental Problems, at 12.12 (prepared on behalf of World Wildlife Fund for Kalahari Conservation Society).

APPENDIX A

Department of State TELEGRAM

PAGE 01 OF 02 GABORO 03439 00 OF 03 211818Z 0655 078415 AID9673
ACTION AID-00

ACTION OFFICE PPDC-01
INFO AFEA-03 AFSA-01 AFSP-06 AFOR-06 FM-02 STAG-02 SAST-01
AGRI-01 STFA-01 TRSY-05 RELO-01 MAST-01 OC-01
/034 A1 1122

INFO OCT-00 COPY-01 INR-10 SS-00 AF-00 CIAE-00 EB-03
DODE-00 H-01 NSC-01 L-03 PA-02 SIL-01 AGRE-01
SP-02 SNP-01 /031 W

354072 211820Z /52/51

R 211820Z SEP 84
FM AMEMBASSY GABORONE
TO SECSTATE WASHDC 1351
INFO AMEMBASSY NAIROBI

UNCLAS GABORONE 3439

AIDAC

FOR: (A) AID/W FOR PPC/DC (B) STATE FOR EB/IFD/OOF AND
OPIC AGENCIES (C) TREASURY FOR OASIA/IOBUN (D) NAIROBI FOR
REDSO/ESA

E.O. 12356 N/A
SUBJECT: EARLY PROJECT NOTIFICATION SYSTEM FOR MOB PROJECTS

REF: STATE 153693

1. FOLLOWING RESPONSE TO LIVESTOCK PROJECT FOR BOTSWANA INVOLVING PROPOSED LOAN OF 23.8 MILLION DOLLARS IS BASED ON FOLLOWING DOCUMENTS ON SUBJECT PROJECT:

(A) BOTSWANA LIVESTOCK SUBSECTOR MEMORANDUM 9/14/83 WORLD BANK REPORT NO 4665-BT
(B) WORLD BANK MISSION: SUMMARY OF MEETINGS WITH MESSRS. STAAB AND MORRIS INTERNAL GOVT. MEMO DATED 4/7/84
(C) AIDE-MEMOIRE FROM WORLD BANK DATED 6/25/84. WOULD APPRECIATE RECEIVING ANY DOCUMENTATION AVAILABLE TO REVIEWING AGENCIES WITH FUTURE INQUIRIES. MOST USEFUL DOCUMENT GIVING REVIEW OF PRIOR IBRD PROJECT IS TITLED: THE OPERATION AND VIABILITY OF THE SECOND LIVESTOCK DEVELOPMENT PROJECT (1497-BT): SELECTED ISSUES, BY SOLOMON BEKURE AND NEVILLE DYSON-HUDSON I.L.C.A. FOR MOA, GABORONE, BOTSWANA 1982.

2. SUBJECT THIRD LIVESTOCK DEVELOPMENT PROJECT DOES RAISE CONCERNS. HOWEVER, PROJECT IS NOT FINALIZED AND COULD BE CHANGED, SO COMMENTS REFLECT COMPONENTS SUGGESTED.

3. MACROECONOMIC SITUATION AND DEVELOPMENT NEEDS.

(A) AS A RESULT OF THE MINERAL SECTOR DURING THE PAST DECADE, BOTSWANA'S GNP ROSE AN AVERAGE 12 PERCENT PER ANNUM THROUGHOUT THE 1970S. PER CAPITA INCOME IS ESTIMATED TO BE ABOUT US DOLS 1,000.00, ONE OF THE HIGHEST IN AFRICA. RECEIPTS FROM DIAMONDS, THE SOUTHERN AFRICAN CUSTOMS UNION, AND BEEF SOLD IN EEC MARKETS UNDER TERMS OF THE LOME CONVENTION HAVE PROVIDED BOTSWANA WITH A LARGE FOREIGN EXCHANGE SURPLUS, CURRENTLY ESTIMATED AT US DOLS 425 MILLION (EQUAL TO APPROXIMATELY SIX MONTHS OF IMPORTS). THE GOVERNMENT UTILIZES ITS RESOURCES IN A VERY COMPETENT MANNER TO BUILD INFRASTRUCTURE AND PROVIDE SOCIAL SERVICES TO ITS WIDELY SCATTERED POPULATION. DESPITE THE EXCELLENT PERFORMANCE OF THE GOVERNMENT AND THE ECONOMY, DROUGHT DURING THE PAST THREE YEARS HAS HAD A DISASTEROUS EFFECT, ESPECIALLY ON THE SMALL RANCHERS.
(B) THE MISSION FAVORS CONTINUED MOB INVOLVEMENT IN THE LIVESTOCK SECTOR SINCE:
1. IT DIRECTLY AFFECTS 80 PERCENT OF THE TOTAL POPULATION WHO LIVE IN THE RURAL AREAS, 71 PERCENT OF WHOM OWN SOME CATTLE;
2. IT IS THE MAJOR SOURCE OF EMPLOYMENT AND INCOME IN THE RURAL SECTOR AND IS VIEWED BY THE RURAL POPULATION AS PROVIDING THE

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BEST OPPORTUNITY TO BETTER THEIR LIVES;
3. INCOME FROM THE SECTOR IS HIGHLY SKEWED AT PRESENT, WITH 20 PERCENT OF RANCHER FAMILIES OWNING APPROXIMATELY 60 PERCENT OF THE TOTAL NATIONAL HERD.
(C) THE MISSION VIEWS IBRD INVOLVEMENT IN LIVESTOCK PROGRAMS AS AN OPPORTUNITY WHICH CAN ASSIST THE GOB IN IMPROVING PRACTICES IN THIS SECTOR. A GOB-SPONSORED STUDY ON LAND TENURE (1982) POINTED OUT THE NEED FOR CHANGES IN THE LIVESTOCK SECTOR AND, IN PRIVATE, GOB SPOKESMEN HAVE ALSO INDICATED A RECOGNITION OF THE NEED FOR REFORM. SINCE THE RULING PARTY OVERWHELMINGLY WON THE ELECTIONS ON SEPTEMBER 8, THIS WOULD APPEAR AN EXCELLENT TIME TO ENCOURAGE THE GOB TO IMPLEMENT NEEDED REFORMS. DURING FINAL NEGOTIATIONS OF THIS PROJECT, THE COMPONENTS OF THE LOAN MAY REQUIRE SOME REVALUATION, AND IBRD COULD USE THIS PROJECT TO ASSIST IN BRINGING ABOUT NEEDED POLICY CHANGES IN THE LIVESTOCK SECTOR.

4. ECONOMIC POLICIES AFFECTING SECTOR

(A) BOTSWANA SUFFERS FROM SEVERE OVERGRAZING, A CONDITION EXACERBATED BY THE BUILD-UP OF THE NATIONAL HERD FROM AN ESTIMATED 2.2 MILLION IN 1970 TO 2.8 MILLION IN 1983. TOTAL OFFTAKE IS LOW, ABOUT 9 PERCENT IN 1982, THE SECOND YEAR OF THE DROUGHT. THIS FIGURE WAS GREATLY EXCEEDED BY ESTIMATES OF CATTLE DEATHS DURING THE YEAR OF 465,000 OR 17 PERCENT OF THE HERD. EVEN DURING A NORMAL YEAR, CATTLE DEATHS NORMALLY EXCEED OFFTAKE. AS CURRENTLY DESIGNED THE PROPOSED PROJECT WILL HAVE NO ABILITY TO INCREASE CATTLE PRODUCTION AS MARKETED OFFTAKE OR TO STOP THE DEGRADATION OF RANGE RESOURCES. THE GOB POLICY ON THE TRIBAL GRAZING LANDS POLICY (TGLP) IS CONTRADICTORY. THE 1975 WHITE PAPER STATES "THE AIMS ARE TO STOP OVERGRAZING AND DEGRADATION OF THE VELD; TO PROMOTE GREATER EQUALITY OF INCOMES IN THE RURAL AREAS; AND TO ALLOW GROWTH AND COMMERCIALIZATION OF THE LIVESTOCK INDUSTRY ON A SUSTAINED BASIS." UNREALISTIC ASSUMPTIONS BEHIND THIS POLICY INCLUDE: (1) LAND BOARDS WOULD CONTROL STOCK NUMBERS HELD BY INDIVIDUALS (NO MECHANISM EXISTS TO DO THIS). (2) LAND OWNERS WOULD REMOVE THEIR HERDS FROM COMMUNAL AREAS TO START THEIR COMMERCIAL RANCHERS. (3) CATTLE PRODUCTION COULD BE "MORE THAN DOUBLED" WITH GOOD MANAGEMENT. LEGISLATION EXISTS IN BOTSWANA WHICH COULD AMELIORATE SOME OF THE CONDITIONS LEADING TO OVERGRAZING. UNDER THE AGRICULTURAL RESOURCES CONSERVATION ACT, THE GOVERNMENT COULD REDUCE THE SIZE OF HERDS. MOST LEASEHOLD AGREEMENTS PROVIDE FOR THE OWNERS TO PRACTICE "GOOD MANAGEMENT". HOWEVER, NO ACTIONS HAVE BEEN TAKEN TO ASSURE COMPLIANCE. INDEED, IT IS GENERALLY RECOGNIZED THAT SOME RANCHES FINANCED UNDER THE FIRST LIVESTOCK DEVELOPMENT PROJECT ARE CARRYING SIGNIFICANTLY LARGER NUMBERS OF CATTLE THAN THEY SHOULD.

(B) QUALITY MANAGEMENT IS LACKING ON MOST TGLP RANCHES. THERE IS GENERAL AGREEMENT THAT THIS IS A MAJOR PROBLEM AREA, BUT ALSO THERE APPEARS TO BE NO REMEDIAL ACTIONS SUGGESTED UNDER LOP III, NOR ARE THERE ANY MOA POLICY CHANGES TO ADDRESS THIS LACK. THERE ARE SEVERAL FACTORS CONTRIBUTING TO THIS SITUATION: (1) MANY TGLP RANCHES ARE UNDER THE CONTROL OF ABSENTEE LANDLORDS (2) RANCHES ARE ALLOCATED WITHOUT SUFFICIENT EMPHASIS PLACED ON RELEVANT MANAGERIAL EXPERIENCE. (3) THE RANCH TRAINING CENTER HAS LITTLE IMPACT ON TGLP MANAGEMENT WITH ONLY 20 TO 30 OF THE 150 GRADUATES BEING EMPLOYED BY THIS SECTOR.

(C) THE NATIONAL ABATTOIR CAPACITY IS INSUFFICIENT TO MAINTAIN THE TOTAL HERD AT A CONSTANT SIZE EVEN GIVEN THE PRESENT LOW PRODUCTIVITY. PHYSICAL REMOTENESS WITH FEW ACCESS ROADS IS AN ADDITIONAL PROBLEM FACED BY HERD OWNERS IN SOME AREAS. THE PROPOSED BUILDING OF A THIRD ABATTOIR IN FRANCISTOWN MAY ALLEVIATE PART OF THIS PROBLEM, BUT IT IS NOT MENTIONED AS A CONDITION PRECEDENT TO LOP III. ONE CONSEQUENCE OF THE PRESENT LOW ABATTOIR CAPACITY IS THAT RANCHERS COMPLAIN THAT THEY CANNOT SELL SUFFICIENT NUMBERS OF CATTLE. SMALL HOLDERS HAVE BEEN PARTICULARLY DISADVANTAGED BECAUSE THE COOPERATIVES HAVE A SMALL QUOTA RELATIVE TO

THE LARGER FREEHOLD RANCHERS.

(D) CATTLE OWNERSHIP IS EXTREMELY SKEWED IN BOTSWANA. ONE FIFTH OF ALL FARM HOUSEHOLDS IN THE TRADITIONAL SECTOR OWNED NO CATTLE IN 1983. ONE QUARTER OF ALL CATTLE FARMS OWNED UNDER 10 HEAD. ANOTHER QUARTER OWNED BETWEEN 11 AND 20 HEAD OF CATTLE. FARMERS HAVING MORE THAN 150 HEAD OF CATTLE OWNED 32 PERCENT OF THE NATIONAL HERD. THEIR AVERAGE HERD SIZE IS 320 ANIMALS. INCREASING COMMERCIALIZATION ON TGLP RANCHES WILL CONTINUE THE PROCESS OF CONCENTRATION OF OWNERSHIP AND IF THE NATIONAL HERD SIZE REMAINS CONSTANT, SMALL HERDS WILL BECOME SMALLER, PENALIZING THE SMALL FARMERS WHO DEPEND ON DRAFT POWER FOR CROP FARMING.

(E) THE TAXATION SYSTEM IN BOTSWANA TENDS TO FAVOR THE LIVESTOCK SECTOR, WITH MORE LIMITED SUPPORT FOR THE ARABLE SECTOR. ACCORDING TO REFERENCE I (A) THE AVERAGE ANNUAL SUBSIDY TO THE LIVESTOCK INDUSTRY DURING THE YEARS 1978 TO 1982 WAS P6 MILLION. INCOME TAXES PAID BY LIVESTOCK RANCHING ENTERPRISES AND INDIVIDUALS ARE LOW, THE EEC PREMIUM IS LARGELY RETURNED TO PRODUCERS SELLING CATTLE, AND MOST LIVESTOCK SERVICES ARE PROVIDED FREE. IN ADDITION, INPUTS SUCH AS BONEMEAL AND MINERAL SALTS ARE HEAVILY SUBSIDIZED AND SOLD ONLY IN LARGE QUANTITIES WHICH RESULTS IN THE LARGEST PRODUCERS OBTAINING THE PRIMARY BENEFIT. LSP III DOES NOT ADDRESS THE DESIRABILITY OF ELIMINATING SUBSIDIES, OR INCREASING TAXES IN THE LIVESTOCK SECTOR TO ENABLE IT TO BE SELF SUPPORTING.

5. TRACK RECORD OF EXISTING INSTITUTIONS.

(A) MINISTRY OF AGRICULTURE (LIVESTOCK PRODUCTION COMPONENT). THE PROJECT PROPOSES TO IMPROVE EXTENSION ACTIVITIES BY ADDING STAFF (RANCH EXTENSION OFFICERS (REO'S) AND VETERINARY ASSISTANTS), CONDUCTING TRAINING FOR REO'S AND IMPROVING FACILITIES. MOF CONCERN OVER RECURRENT STAFF COSTS AND ITS OPPOSITION TO FURTHER EXPANSION OF THE DEPT. OF FIELD SERVICES (DAFS) IS NOT DISCUSSED IN THE PROPOSAL.

(B) NATIONAL DEVELOPMENT BANK (RANCH DEVELOPMENT COMPONENT) THIS INSTITUTION WOULD BE THE HOLDER OF CREDIT FOR ABOUT 200 RANCHES OVER AN INITIAL PERIOD OF 5 YEARS. IN 1983 THE WORLD BANK CALCULATED THAT EACH RANCH WOULD REQUIRE AN INITIAL CAPITAL INVESTMENT COST OF P53,000 IN THE FIRST THREE YEARS, AND THAT THE MINIMUM ECONOMIC SCALE OF OPERATION WOULD BE ABOUT 500 HEAD OF CATTLE ON A RANCH SIZE OF BETWEEN 4,500 HECTARES AND 6,000 HECTARES. TO MONITOR LOANS OF THIS SIZE AND COMPLEXITY REQUIRES EXPERIENCE AND KNOWLEDGE BY THE BANK STAFF. IT IS SAID THAT ABOUT ONE-QUARTER OF THE OUTSTANDING LOANS TO LIVESTOCK RANCHES MADE BY THE NDB ARE OVERDUE. THE FIRST LOAN REPAYMENTS DUE UNDER LIVESTOCK I AND II ARE DUE THIS YEAR FROM THE NJAANE RANCHES. IT MIGHT BE PRUDENT TO ASSESS THE ABILITY OF THESE RANCHERS TO REPAY BEFORE REPLICATING THIS MODEL OF RANCH DEVELOPMENT.

(C) MINISTRY OF LOCAL GOVERNMENT AND LANDS (MLGL) (LAND USE PLANNING COMPONENT)
THE PROJECT PROPOSES TO STRENGTHEN THE DISTRICT OFFICES OF THE MLGL, CREATE A DISTRICT PLANNING UNIT (DPU), STRENGTHEN THE MAIN AND SUB-ORDINATE LAND BOARDS, AND STRENGTHEN THE LAND DEVELOPMENT SECTION. CONCERN HAS BEEN EXPRESSED BY SENIOR MOA OFFICIALS THAT TOO MUCH OF THIS ASSISTANCE MAY BE PROVIDED BY EXPATRIATES, LEAVING LITTLE BEHIND AFTER THEIR DEPARTURE. ANOTHER CONCERN IS THE SIZE OF THE INVESTMENT IN THIS RATHER NON-PRODUCTIVE SECTOR.

6. THERE APPEAR TO BE AREAS WHICH WARRANT FURTHER WORK ON THE SUGGESTED PROJECT DESIGN. USAID HAS NO PROJECTS IN THE LIVESTOCK SECTOR. THE AGRICULTURAL TECHNOLOGY IMPROVEMENT PROJECT (ATIP) IS GATHERING DATA ON INTEGRATED ARABLE AND LIVESTOCK FARMS IN A LIMITED GEOGRAPHICAL AREA OF BOTSWANA. THERE ARE NO KNOWN SERIOUS UNDESIRABLE INCONSISTANCIES BETWEEN THIS PROJECT AND THE ACTIVITIES OF OTHER DONORS.

7. USAID DID NOT HAVE CONTACT WITH VISITING BANK STAFF.

8. THE TGLP RANCHES OFFER SCOPE FOR INDIVIDUAL ENTREPRENEURIAL ACTIVITY. COMMERCIAL BANK DEMONSTRATED THEIR SKILLS IN AREAS OF RANCH MANAGEMENT. LOANS MADE BY THE NDB MAY NOT REQUIRE THE DEMONSTRATED MANAGERIAL CAPACITY DEMANDED BY THE COMMERCIAL BANKS.

9. USAID/EMBASSY BELIEVES THAT THE GOB IS NOW OPEN TO REFORMS IN THE LIVESTOCK SECTOR AND THAT THE PROPOSED PROJECT, IF PROPERLY STRUCTURED, COULD SIGNIFICANTLY FACILITATE THE REFORM PROCESS.

10. CABLE RESPONSE IS MADE JOINTLY BY USAID AND EMBASSY.
MAING

Statement of the
NATIONAL ASSOCIATION OF REALTORS®
THE WORLD'S LARGEST TRADE ASSOCIATION

by
JOHN T. HOWLEY, VICE PRESIDENT, INTERNATIONAL AFFAIRS
NATIONAL ASSOCIATION OF REALTORS®

SUMMARY

The NATIONAL ASSOCIATION OF REALTORS® believes that the United States has a major stake in world housing progress. We know the strong desire of people in our own country for decent housing, home ownership, and the importance these have to our political and social stability and economic growth. We are persuaded that improvements in housing and home ownership, or other forms of secure tenure, are fundamental elements of political and social advancement in other countries. When people have a stake in their own country they will preserve it.

Last year the President signed into law an authorization for foreign assistance which includes two provisions that the NATIONAL ASSOCIATION OF REALTORS® strongly supports. These are:

1. An authorization of $150 million of guaranty authority in each of FY's 1986 and 1987 for AID's Housing Guaranty Program.

This successful program is unsubsidized. It promotes private enterprise and home ownership which we support. It serves low-income families and it serves important foreign policy objectives.

2. A voluntary contribution of $480,000 in each of FY's 1986 and 1987 from within the Administration's requested funding for International Organizations to the United Nation's Centre for Human Settlements. This organization is the Executive Agency for the International Year of Shelter. It is supporting security of tenure, home ownership and individual initiative

in developing country programs to house the poor. The Congress should demonstrate its support for the direction being taken by this well-managed UN agency.

These provisions were written into the appropriation bill for foreign assistance in Fiscal Year 1986. We support appropriations for these programs at their authorized level in Fiscal Year 1987, provisions that we request be written into the bill for foreign assistance now before your committee.

AID HOUSING GUARANTY PROGRAM

Our testimony of last year and our current position strongly support continuation of the Housing Guaranty Program administered by the Agency for International Development because the benefits to the United States greatly exceed any likely costs. Our main points are that the program:

(1) Requires full repayment of loans at market rates of interest. Full recovery with interest is required and expected.

(2) Has provided the Congress with twenty years of good experience. It provides home ownership possibilities and needed infrastructure for lower income families in participating countries, removes constraints to private sector housing production, and facilitates self-help efforts.

(3) Stimulates greater savings through increased homeownership in developing countries and expands access to formal credit systems particularly for lower income households.

(4) Helps to promote, mobilize and improve capital markets both in participating countries and internationally.

(5) Is dramatically less costly to the U.S. Treasury than other forms of development assistance loans and grants.

(6) Promotes self-help and individual initiative. It serves to enhance civic pride and, correspondingly, to strengthen the individual's stake in his/her society and its stability.

(7) Provides an outstanding example of how the right policies and institutions can encourage people to provide their own shelter. The elimination of this program and the loss of U.S. leadership in the international arena, where we play an extraordinarily important role, would have significant consequences throughout the developing world.

(8) Has been spoken of as the central U.S. commitment in support of the International Year of Shelter for the Homeless in a number of UN Conferences.

INTERNATIONAL YEAR OF SHELTER FOR THE HOMELESS

In addition to the Housing Guaranty program, we strongly support appropriating the authorized level for a U.S. contribution for the UN Centre for Human Settlements (UNCHS) in support of the International Year of Shelter. This modest contribution would be obtained by reducing development grants or U.S. contributions to other parts of the United Nations. UNCHS has wisely adopted policies which support the efforts of people to help themselves provide their own shelter needs, and policies to encourage home ownership and other forms of more secure tenure. The business community is vitally interested in the International Year of Shelter.

The International Real Estate Federation, the NATIONAL ASSOCIATION OF REALTORS® of the United States, and the International Union of Building

Societies and Savings Associations are co-sponsoring a Second International Shelter Conference later this year. Most important private housing related organizations from around the world will participate in the meeting (see Attachment A). Major international aid agencies, the World Bank and the United Nations Centre on Human Settlements (Habitat) will also participate. The Conference is designed to be a major private sector contribution to the International Year of Shelter designated by the United Nations.

The Second International Shelter Conference will:

(1) Be an important waypoint in formulating a private sector view on worldwide shelter and urban policies for the remainder of this century. The private sector view on world policies for shelter and urban services is not articulated; there has not been a forum in which to express it; nor has there been a body to advocate such a view.

(2) Further develop a private sector International Shelter Coalition; a respected and influential private real estate, housing and finance expert group which will issue authoritative policy statements to national and international bodies whose financial and program policies affect housing and related industries.

(3) Provide a continuing forum in which the Coalition can meet.

(4) Set forth the basic principles and specific actions necessary to facilitate a private sector response to the problem of shelter in the world.

The expansion of world trade and growing economic interdependence have an increasingly powerful impact on the U.S. economy and the real estate industry. These developments have increased the need for REALTORS® to

monitor, forecast and seek to influence world economic policies and developments that may affect them.

The U.S. is now a debtor nation and thus increasingly dependent upon healthy foreign capital markets. These markets are sensitive to the financial position of developing nations. Their ability to service debt is in large part dependent upon the kind of internal economic and financial policies they pursue.

AID, through the Housing Guaranty Program, is promoting sensible policies including support for private initiative and home ownership. UNCHS is sensitive to security of tenure and the role of the non-governmental sector. The objective of our support is, as rightly it should be, the development of the private sector initiatives everywhere.

In closing, we strongly recommend that the Congress continue the AID housing loan guaranty program as authorized and strongly recommend appropriating the balance of the authorization to the United Nations Centre for Human Settlements.

Attachment A

Sponsoring and Participating Organizations

A. Private Organizations sponsoring the Second International Shelter Conference now are:

NATIONAL ASSOCIATION OF REALTORS®
International Union of Building Societies (IUBSSA - 65 countries)
International Real Estate Federation (FIABCI - 43 countries)
NFRETA (Japanese Real Estate Association)
United States League of Savings Associations
National Council of Savings Institutions
Mortgage Bankers Association
Cooperative Housing Foundation
Africa Union of Building Societies
Canadian Real Estate Association

B. Private Organizations considering sponsorship or participation are:

Royal Institute of Chartered Surveyors (UK)
Incorporated Society of Valuers and Auctioneers (UK)
Building Society Association (UK)
Inter-American Housing Union (Hqtrs.- Chile- 21 L.A. Republics)
Inter-American Savings and Loan Bank (Hqtrs.-Venezuela)
Carribbean Association of Building Societies and Housing Finance Institutions (Kingston, Jamaica)

FIABCI Chapters (43 countries)
Associated General Contractors of America
National Association of Home Builders
American Institute of Architects
International Council of Shopping Centers
National Forest Products Association

C. Participating Public Organizations:

Agency for International Development
United Nations Centre for Human Settlements
World Bank
U.S. Department of Housing and Urban Development
Canadian Mortgage and Housing Corporation

D. Potential Participating Public Organizations:

Canadian International Development Agency
Central American Bank for Economic Integration (Hqtrs. - Guatemala)
Commonwealth Development Corporation (UK)
Asia Development Bank (Manila, Philippines)
Inter-American Development Bank (Hqtrs. - Washington, D.C.)
Korea Housing Corporation (Seoul, Korea)
Jordan Housing Bank (Amman, Jordan)
Credit Foncier (Egypt)

MACHINERY and ALLIED PRODUCTS INSTITUTE

PREPARED STATEMENT OF CHARLES W. STEWART

VICE PRESIDENT AND TREASURER

We welcome the opportunity to offer our views on the funding of Export-Import Bank operations for Fiscal Year 1987, in connection with the subcommittee's hearings on appropriations for foreign assistance and related programs for FY 1987.

As you may know, the Institute represents the capital goods and allied products industries of the United States. In addition to traditional capital goods product lines (e.g., machinery and other industrial equipment), MAPI's constituency includes leading companies in the electronics, precision instruments, telecommunications, computer, office systems, aerospace, and similar high-technology industries.

Before offering our views in detail, we should acknowledge the difficult decisions the Congress must make in cutting government expenditures in its effort to reduce the federal deficit. This is particularly the case since each proposal relating to this goal must be examined on its merits in light of the long-range interests of the United States. It is in this framework that we believe adequate funding of the Export-Import Bank to be an essential part of a wide-ranging program to improve the international competitive position of the United States in order to reduce the trade deficit, a problem no less serious than the budget deficit. Further, budgetary restraints which lead to loss of business and employment will have the counterproductive effect of reducing the revenue side of the budget.

Summary of MAPI Position

We urge that the Congress provide an adequate level of funding for the Bank. Failure to do so can only contribute to the further erosion of U.S. international market shares.

More specifically, we believe the full amount of the $1.8 billion in direct lending authority that is called for in the proposed FY 1987 Budget should be authorized for the following reasons:

-- Although the Bank's direct lending has totaled less than $1 billion in each of the last two fiscal years, the Bank estimates that the demand for its loans for Fiscal Year 1986 may exceed the $1.06 billion limitation on direct lending, resulting in some overhang for FY 1987. Should this occur, with the decline of the dollar and the likelihood of continued improvement in the world economy, the FY 1987 demand for Eximbank loans could easily reach the $1.8 billion range.

-- Further, it should be noted that the Bank's assumptions as to demand (1) do not include possible credits for commercial aircraft or nuclear plants and (2) do include an assumption, based on present private market rates and the minimum rates established under the international Arrangement on Guidelines for Officially Supported Export Credits, that direct loans will be confined largely to the Category III (Relatively poor) countries. If domestic interest rates should rise significantly over the next 18 months, Bank financing support for transactions in Category II (Intermediate) countries also might be necessary.

-- The existence of a lower loan "cap" would create uncertainty on the part of exporters and foreign customers as to whether Eximbank support will be available when it is needed. Since this element of uncertainty is particularly important in the case of projects which have long lead times, U.S. firms that have the option of foreign sourcing may choose to have their foreign affiliates take the responsibility for such projects from the outset.

The MAPI Position in Detail

Excessive Restraint

The Senate Committee on Budget has ordered reported S. Con. Res. 120 which would limit all Eximbank financing to $1.06 billion for FY 1987. If this ceiling is adopted in the Foreign Assistance and Related Programs Appropriations Act, 1987, we believe:

-- Eximbank would not be able to meet the anticipated demand for its services, described above, thus contributing to the exodus of production from the United States.

-- The Bank would not have adequate resources to sustain its tied-aid credit program, thus jeopardizing the possibility of the United States negotiating improvements in the international Arrangement on Guidelines for Officially Supported Export Credits to limit the increasing use of tied-aid credits.

-- The excessive restraint would clearly impair Congress' goal set forth in the "competitiveness mandate" provisions of the Export-Import Bank Act enacted in 1983.

To generalize, adequate funding of Eximbank--and the provision by the Bank of programs fully competitive with those offered by other major industrial nations--should be considered as part of a wide-ranging program to improve the attractiveness of the United States as a source for manufacturing. That is, fully competitive export financing should be an important part of a program which also includes: the recently initiated efforts to lower the value of the dollar and to eliminate or reduce foreign barriers to U.S. exports of goods and services; a tax system having as one of its principal objectives improving the international competitive position of the United States; and to reduce the "regulatory maze" confronting exporters as a result of the

proliferation of export controls, the Foreign Corrupt Practices Act, antiboycott regulations, etc., that have the effect of increasing U.S. administrative costs relative to those of our competitors and impede U.S. exports to a growing number of markets.

We believe the Bank should be funded with a combination of direct lending authority and, assuming that the "scoring" of Eximbank activities as proposed in the FY 1987 Budget is accepted (i.e., guarantee authority is not counted as a budget outlay), the authority to support loans from private institutions through the I-Match interest subsidy program. Direct loans from the Bank are a proven, effective way to provide U.S. exporters with competitive export financing. The I-Match proposal is of course untried but, given the receptivity of Eximbank to suggestions that could improve its effectiveness, it appears to be the view of private financing institutions and exporters that it could be a useful tool for export financing. Although the I-Match program would be more expensive than an equivalent amount of Bank direct loans because of the higher cost of funds for private borrowers, such an approach appears to be in line with the desire of the executive branch and the Congress to reduce government lending programs. As noted by Representative Stephen L. Neal, Chairman of the Subcommittee on International Finance, Trade, and Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, in remarks that appeared in the March 25, 1986, Congressional Record, there are other attractive features of I-Match. By offering an enhanced guarantee as a part of I-Match and permitting some transferability of the Bank-guaranteed obligations, the program would attempt to enlist many types of financial institutions--not just a few commercial banks--in the financing of U.S. exports. This is of course an important consideration since most commercial banks, adversely affected by the debt crises in a number of countries, have severely curtailed their export financing.

Lack of Consistency and a Strong Commitment to U.S. Export Financing

The record.--When one reviews the "stops and starts" in the funding for Export-Import Bank in recent years and the regulatory impediments placed on the Bank, it is not surprising that some U.S. firms whose exports depend heavily on financing--as well as a number of foreign customers who require that their imports be financed--regard the United States as an uncertain source of financing. During the Reagan Administration alone, the Bank was, in effect, inoperative from February until July 1981; received reduced funding for fiscal years 1982 and 1983; and was lending continuously at rates above--at times far above--the international Arrangement minimums until January 1983. This uncertain outlook for export financing is of course not only a matter of the past; it is continuing. During this fiscal year it was not clear until late December, three months into FY 1986, whether Eximbank would be funded at the "high" level ($1.8 billion) authorized by the congressional budget resolution and the Senate Committee on Appropriations (a level $2 billion below the level authorized in FY 1985), at the low level authorized by the House Committee on Appropriations ($784 million), by an interest subsidy program ("I-Match") proposed by the Administration in its FY 1986 Budget, or by some combination of direct lending and an interest subsidy program. A company working up a bid proposal which has the option of supplying the export from overseas sources may well question whether it is worth betting that U.S. export financing support will be available should it win the order.

Restrictions also have been placed on the Bank's authority to lend to certain countries. These include the ongoing restrictions on loans to the Soviet Union and other communist countries which do not recognize the right of emigration, South Africa, and, of course, several

other countries where all U.S. trade is prohibited--Libya, Nicaragua, Cuba, Vietnam, North Korea, and Kampuchea. While one can of course justify restrictions on trade with a country under certain conditions, both the length of the U.S. list and, more importantly, the extent to which it is subject to change, further create uncertainty in the minds of both the exporter and importer. No other country has so many markets "off limits" for trade or export financing.

The cost.--One aspect of the U.S. competitive problem that warrants increased attention is the shifting of sourcing for foreign markets from the United States to overseas manufacturing facilities of U.S. firms. While such sourcing decisions are made for a number of reasons, particularly lower cost and improved quality, the availability of competitive export financing is also an important factor in many such sourcing decisions. The following comments bear on this point:

-- During 1981 the Export-Import Bank was inoperative for several months while the new Administration was developing its policies, and subsequently was lending at interest rates well above those of its major competitors for the remainder of the year. In early 1982 MAPI surveyed a small sample of its member companies concerning instances during 1981 in which they sourced from a foreign subsidiary or other foreign affiliate in order to provide competitive export financing. Of the 39 companies surveyed, 14 reported that 39 transactions, with a dollar value of $386.7 million, were diverted in 1981 to foreign affiliates primarily, if not exclusively, because of more attractive export financing. For reasons we need not detail here, these results understate the exports "lost" by the reporting companies.

-- Much of the business lost to foreign sources, affiliated and unaffiliated, may not return to the United States for the foreseeable future. The shifts which have taken place--due in large part, but by no means entirely, to the high value of the dollar--may become permanent because of the upgrading of the technology and the state-of-the-art production experience of foreign producers. This appears to be the case particularly for production shifts to countries on the Pacific Rim.

-- Capital goods orders lost currently also result in substantial losses of future business. Orders for "big ticket" items, such as capital goods, are placed at infrequent intervals--in many cases at intervals of several years, or even a decade. When the initial order is lost to a foreign competitor, that competitor obtains the substantial business in repair parts and spares which follows for a number of years, and also is more likely to be the favored supplier when there are additions to capacity.

This concludes our comments. Please let us know if MAPI can be of further assistance in the subcommittee's deliberations concerning this legislation.

United States Committee for
UNICEF
United Nations Children's Fund

A future for every child.

Statement by Lawrence E. Bruce, Jr.
President of the United States Committee for UNICEF

Thank you, Mr. Chairman, for the opportunity to submit testimony to your Subcommittee on the work of UNICEF this past year. I am Larry Bruce the new President of the United States Committee for UNICEF.

The United States Committee for UNICEF is one of 33 national citizens organizations established in 1947 to inform and educate the American people and our government on the work of the Children's Fund and the special needs of the world's children. The United States Committee, Chaired by Hugh Downs, with Presidents Gerald Ford and Jimmy Carter serving as Honorary Co-Chairmen, is supported by one of the largest volunteer networks - three million Americans - of any humanitarian cause in the world. In addition, millions more Americans contribute to UNICEF each year through direct donations, use of UNICEF greeting cards, Trick or Treating, and participation in fundraising activities.

Child Survival and Development Revolution: An Overview

Three years ago, Mr. Chairman, my predecessor, Mr. James Sheffield, came here to tell you about the beginning of a new revolution, a child survival revolution, which UNICEF

outlined in its 1982-83 report on The State of the World's Children. That report proposed that in spite of the worldwide economic recession which forced governments throughout the developing world to reduce national education programs and health and social services, there were technological resources at hand that could reduce the annual death toll of 15 million infants and young children, children who die needlessly from preventable diseases and malnutrition. The mobilization of existing capacities and resources was possible. The death trend could be reversed if only the world wanted to do it.

Last December, UNICEF released its 1986 report on The State of the World's Children and the message was heartening. The child survival strategy outlined just three years ago has been translated into concrete action with encouraging results in all parts of the world and under circumstances as different as drought and flood, in the midst of civil wars and in spite of debilitating economic conditions.

The "twin engines" of this strategy, oral rehydration therapy and immunization against the six preventable child-killing diseases, have inspired the mobilization of societies to an extent that would not have seemed possible a decade ago, and promise to make possible the acceleration of other community-based primary health care actions, such as the installation of pumps for safe drinking water, nutrition education, and construction of sanitation facilities. For example:

In Haiti, over 80 percent of parents in the slums of Port-au-Prince, and 30 percent in the rural areas, have now begun to use ORT. Sachets of the salts have been distributed through thousands of small commercial outlets and demand has been created by promoting the ORT idea through newspaper and

radio advertisements. One day's training in ORT has been given to organized groups who are in regular contact with a wide public: schoolteachers, health workers, agricultural extension workers, traditional healers, and over 15,000 members of the Boy Scouts.

In the Sudan, these basic child survival strategies are proving their sharpened relevance in the midst of drought and famine. Through the emergency operations, and through the large scale water supply programs, ORT and immunization are combating the diarrheal and other diseases to which overcrowded refugee camps and emergency feeding centers are particularly vulnerable. Close to six million sachets of oral rehydration salts were distributed during 1985 and hundreds of community health workers were trained in their use.

In Egypt, with major support from USAID, death rates from diarrheal disease have been halved by ORT in a large pilot campaign which has now been extended to the whole nation. Approximately 8,000 doctors have been retrained and, as of mid-1985, 4,000 clinics had started to use ORT against the diarrheal dehydration which kills more than 80,000 Egyptian children each year. Television commercials for ORT have been broadcast nightly and 80 million sachets of salts a year are now being locally produced and made available both from health posts and from thousands of commercial pharmacies. And it is now estimated that 90 percent of mothers in Egypt know about ORT.

In India, last November 19th, Indian Prime Minister Rajiv Gandhi inaugurated the first phase of his country's universal immunization campaign as "a living memorial" to his late mother, Indira Gandhi.

Last year in El Salvador, three separate days of cease-fire were observed by both sides in the civil war so that two-thirds of the nation's 400,000 unimmunized young children could be protected against five major infectious diseases on three National Vaccination Days. Bringing the first Vaccination Day to an end on February 3, 1985. El Salvador's President Duarte announced: "We have had a day of peace, a day of life, a day of hope". And on Sunday, April 6, the first of this year's three "Days of Tranquility" was held.

And just a few weeks ago, in one of the first major public events of her government, Philippine President Corazon Aquino and Vice President Salvador Laurel, joined in a celebration of UNICEF's 40th Anniversary by pledging that achievement of UCI 1990 and the Child Survival and Development Revolution will be principal goals of the Philippine government, turning "people power" from political revolution to the revolution for children.

In Burkina Faso, a presidential decision of September 19, 1984 led to the mounting of operation 'Vaccination Commando' in which Committees for the Defence of the Revolution throughout the country brought almost 65 percent of the nation's children to be immunized with the 'single-shot' vaccines against measles, meningitis, and yellow fever. The usual epidemics, in which thousands of children die and tens of thousands of children fall seriously ill, have thereby been prevented - giving the health services a breathing-space in which to build towards a system of regular immunizations for all children against the major vaccine-preventable diseases. Immunization depends as much on parents as it does on the medical profession. But Oral Rehydration Therapy, depends even more heavily on parental knowledge and action.

At present, the dehydration induced by diarrhea is estimated to be killing almost four million young children each year -- down from five million two years ago -- and undermining the nutritional health of many millions more.

Most of those lives can be saved if parents know when and how to use oral rehydration solutions. Such solutions can be made with one of the 200 million sachets of oral rehydration salts now being mass-produced in the developing world each year. Or they can be made at home using either salt, sugar and water or one of the effective traditional remedies.

At present, only about 20 percent of the world's families know enough about ORT to be able to use it. But it is already estimated to be saving the lives of half a million children a year.

I. Twin Engines Plus

Oral rehydration therapy and immunization stand in the front line of a revolution in Child Survival. But these techniques do not stand alone. The U.S. Agency for International Development, the World Health Organization, and UNICEF, have adopted a common strategy with ORT and universal immunization taking the lead.

Over the last three years, the report on The State of the World's Children has brought together research and experience from around the world to show that several knowledge breakthoughs have recently been made.

Specifically, previous years' reports have

demonstrated that knowledge about breast-feeding, improved weaning, and regular monitoring of children's growth could, along with immunization and ORT, save the lives of at least half the 40,000 children who are now dying each day in the developing world.

It is also now thought that regular growth checking, along with advice on affordable changes in methods of child feeding, could drastically reduce both the incidence and severity of malnutrition. Such changes might include the introduction of other foods (in addition to breast-milk) as soon as weight gain falters, more frequent and persistent feeding (especially during and immediately after any illness), the inclusion of green vegetables and small amounts of oils or fats in the daily diet.

Mr. Chairman, as you know, last year, another potential breakthrough has been added to the list. The findings from a major study in Indonesia appear to have confirmed that a lack of vitamin A in the child's diet, long known to be a major cause of blindness, is also an important determinant of a child's overall health. Even in reasonably well-nourished households, the lack of vitamin A was found to be associated with a very much higher level of respiratory and diarrheal infections and with significantly higher levels of child deaths. In areas already reached by low-cost vitamin A supplements, it was found that the child death rate was more than 30 percent lower.

Should these findings be confirmed, then the maintenance of an adequate level of vitamin A will join the range of low-cost, parent-based ways of protecting the health and lives of children in the poor communities of the world.

But as with immunization technology, the real potential of knowledge breakthroughs about ORT, about infant-feeding methods, or about vitamin A levels, resides in the fact that most of these techniques are cheap and simple enough to become part of a mother's normal way of bringing up and caring for her children. And this means that the benefits of this knowledge could be made available to all children and not just to the few who have access to sophisticated medical facilities.

The challenge of the child survival revolution has become the challenge of finding ways and means to mobilize much more far-reaching forces in order to inform and support many millions of parents in using new knowledge to bring that revolution about.

II. Benefits to Poor Women

Recognizing that " parent power " is a key to the success of the Child Survival and Development Revolution, UNICEF last year presented to its Executive Board a policy paper outlining the role of women in the achievement of world wide goals for reducing infant and child mortality and morbidity rates and the intention of UNICEF to strengthen and support its programs and project assistance to yield direct social, health and economic benefits to women living in poverty for their own well being. This is in recognition of the fact that improvement of women's condition is a necessary prerequisite for social development and for children's well-being.

At the World Conference on the United Nations Decade for Women, held in Nairobi in July of last year, Jim Grant, the Executive Director of UNICEF told the world's women

that "...particularly for those in poor communities and low income countries, the potential for a revolution in child survival and health, largely through a new empowerment of women, could have major beneficial implications for women as well as for children".

Among the many themes explored through the U.N. Decade for Women is that the majority of the developing world's mothers have too large a share of responsibility for family well-being and too small a share in the decisions which affect it. Whether we are talking about breast-feeding or weaning, oral rehydration therapy or immunization, regular growth-checking or frequent hand washing, it is obvious that the mother stands at the center of the child survival revolution.

The Decade for Women has brought out the fact that many millions of the world's mothers are permanently in poor health. To take one indicative example - almost half of the women in the developing world are anaemic - and among pregnant women that figure rises closer to 70 percent.

The cause is not usually a specific illness, it is rather the general condition, euphemistically termed 'maternal depletion', that is caused by too much work and too little food combined with too many pregnancies too close together. From girlhood to womanhood, the females of many societies are fed last and least. Malnutrition in girls is much more common than among boys and the fact that, on average, an American woman weighs approximately 25 percent more than an Indian woman is explained not by race, but by food.

Survey after survey has shown that women work more hours per day and more days per year in the fields than men and

that they are directly responsible for producing more than half of all the food grown in the developing world. In West Africa, for example, women do 70 percent to 80 percent of all agricultural work and produce 40 percent to 50 percent of all staple food crops.

Of the 460 million women in the developing world, no less than half are estimated to suffer from energy-sapping anaemia; an estimated total of a half-million mothers die annually from causes related to childbearing. Maternal mortality rates in some developing countries are up to 200 times higher than in Europe, leaving several million motherless children. For every mother who dies, many more struggle on in a state of 'maternal depletion'.

All of these demands on the time and energy and health of women help to explain, if not to solve, one of the most intransigent of all development's problems - the problem of "reaching the poorest".

For although it is among the poorest 25 percent or 30 percent of a nation's people that the problem of malnutrition and ill-health are concentrated, it is also in this group that mothers have the least time and energy, the least information and confidence, to become involved in acquiring and applying new knowledge or taking advantage of available services.

The problem is one which runs like a fault line through most development efforts in most developing nations. For whether we are talking about methods of improving the productivity of the land or methods of improving the growth and development of children, it is the poor, those whose need is greatest, who have the least surplus of resources -- of money,

time, energy, health, knowldge and confidence -- to invest in improvements. That is the 'Catch 22' of poverty. And it means that the problem is perpetuated through a cycle of poor nutrition, poor health, poor performance at school and at work, poor productivity, low income, no surplus money or efforts to invest in improvement, leading to continued poverty, continued poor nutrition...and so the cycle goes on.

Protecting the normal physical and mental development of children is clearly essential if that cycle is ever to be broken. Today that protection can be provided to the majority of the poor world's children at a cost which is within the capacity of most of the poor world's families. But for all the other kinds of support which will be necessary to bring this about, the critical health worker at the center of the Child Survival Revolution is still the child's mother.

Does the fact that so many mothers are so overworked mean that there is no realistic hope of new knowledge and new techniques being acquired and applied? Or can the major low-cost ways now available for protecting child health also allow mothers themselves to save both time and money and conserve their own health and strength?

Breast-feeding, although 'costing' the mother perhaps 500 calories a day and taking a considerable amount of her time, can save the $200 to $300 a year which is the average cost, in a developing country, of bottle-feeding a baby on artificial infant formulas. To buy enough infant formula for one infant in Mexico, for example, costs ten percent of an average family's income and 35 percent of the income of families in the poorest areas. In Africa, the proportionate costs are even higher -- and even an employed person, say a

hospital cleaner or a government clerk, would have to spend over 30 percent of his or her monthly salary to buy enough milk powder for a two-month old infant.

Oral Rehydration Therapy also offers savings of both mother and time. For of all the childhood diseases which a mother has to cope with, diarrhea is by far the most frequent. Each episode usually lasts four or five days and there may be as many as six or more episodes a year. And in the one study on the subject so far, it has been found that the average length of diarrhoeal illness was reduced from just under five days to approximately two-and-a-half days in homes where ORT was used. The result was not only a halving of nursing and worrying time, but also less bathing of children and less washing of soiled clothes.

Once a mother has the confidence to use ORT in her own home, being certain that it is the best possible therapy, then the time, traveling expenses and treatment costs of clinic and hospital visits can also be saved. In most developing nations today, diarrheal disease is the most common reason for visits to pharmacies, health clinics, and hospitals. In some countries, families are now spending up to ten percent of their income on anti-diarrheal drugs which are of no value. And if dehydration does set in, then the usually less effective intravenous therapy costs from ten to twenty times as much money -- and takes very much more time -- than the simpler, cheaper, and more effective oral rehydration therapy.

Immunization would take out at least two or three major, worrrying illnesses which a child would otherwise have to be nursed through. It would also prevent at least half of the childhood disabilities, especially paralytic polio, which have a serious effect on the life of the mother as well as on

the development of the child. With full immunization, for example, the chances of a child becoming disabled are reduced by approximately 30 percent.

Similarly, low-cost action to fortify diets with vitamin A, iodine, or iron, may be essential for protecting the normal development of young children in certain specific areas of the world. And the time taken to include these minerals and vitamins in the diet -- or to collect the capsules from a clinic -- can also protect the mother from the consequences of a child's disablement. Vitamin A supplements, or the inclusion of more green vegetables in the child's meals, could save the eye-sight of the quarter of a million children who now go blind each year from vitamin A deficiency. But the same action could also save the mothers of those children from the agony of watching their children' eyes slowly rupture and from the lifelong extra work of bringing up a sightless child. In other areas, going for iodine injections in pregnancy or buying iodised salt is necessary both to protect the fetus from brain damage and the mother from the consequences of giving birth to a permanently retarded baby.

Growth monitoring will normally mean a visit to a clinic or a village weighing center once a month. But it too can repay with interest the time invested. The main aim of regular growth monitoring is to give mothers early warning of any faltering in the child's growth. And at that early stage, relatively cheap and simple action can be taken to stop the child from slipping into the cycle of malnutrition and frequent illness -- a cycle which takes such a toll both on the child's growth and on the mother's time and energy.

Those demands on the mother's time caused by the sheer frequency of child illnesses are hard to imagine from the

perspective of the industrialized world. In very poor countries, children may be ill for half of their young lives. According to one survey in Bangladesh, for example, the average child has one illness or another for 75 percent of all the days of its life. With perhaps three or four children to look after, such figures mean that a mother is permanently coping with the illness of at least one child, and not only does this take time, it also costs money. Many families in the developing world spend over ten percent of their income on health -- in traveling expenses to clinics, in costs of medicines, and in fees to doctors or traditional healers. In a country like Malawi, for example, it has been calculated that one-third of the nation's total expenditure on health by families themselves. Or in Honduras, where the average family sustains about three illnesses a year, the direct cost to the family is approximately $7.50 per illness or a total of over $180.00 a year - half of which goes on drugs. So the financial costs of illness, as well as the costs in the mother's time, energy and worry, are proportionately much higher than in the industrialized nations.

Growth checking, as a focal point of child health protection, could bring together present knowledge about both the prevention of illness and about the special weaning and feeding needs of the young child. The result could be at least a 50 percent reduction in the days spent in illness during a child's earliest years.

In previous year's reports, Child Survival and well-being has also been shown to be closely related to the 'Three Fs' of Family Spacing, Food Supplements, and Female Education. All of these have been shown to exert powerful upward leverage on a child's chances of survival and normal

growth. But all of them also exert powerful upward leverage on the well-being of mothers themselves:

Family Spacing: Leaving at least two years between one pregnancy and the next can reduce the risk of an infant's death by 50 percent or more. But it is also one of the most important ways, perhaps the most important way, of maintaining the heavy nutritional stresses of almost continuous pregnancy, childbearing, and breast-feeding. In most developing countries, 'maternal causes' are the leading causes of death for females between the ages of 25 and 35. In other words, more than a thousand young mothers are now dying every day -- and probably the majority of those 'maternal deaths' are the result of too many births too close together.

Female Education: The education of the mother has been found to be perhaps the most important single determinant of a child's chances of survival -- even allowing for differences in economic class. But it too is a powerful force for improving the lives of mothers themselves.

Even with only four or five years of schooling in which to achieve basic literacy, a women stands a very much higher chance of acquiring the knowledge and the confidence to plan and space her pregnancies, to make use of available health services, to acquire and apply new knowledge, to work outside the home and earn a higher income, and to participate in the family and community decisions which affect her life.

Food Supplements: Extra food for at-risk pregnant women have been shown to reduce the incidence of low birth-weight which is 'the single most important determinant of an infant's chances of survival and healthy growth and

development'. Similarly, extra food for breast-feeding women can mean more successful and longer lactation.

But, as well as being a key child survival strategy, extra food is obviously just as vital for maintaining the nutritional health of the mother herself. In the industrialized world, an average woman gains approximately 26.5 pounds in weight during her pregnancy -- much of which is accounted for by the fat stores and the energy reserves needed for child bearing and breast-feeding. Many of the developing world's women -- women with too much hard work to do and too little good food to eat -- gain only 13 pounds or less in pregnancy and therefore do not build up any adequate reserves. But the baby will still be born and will still breast-feed -- at the inevitable cost of depleting the mother's own nutritional health.

The principal child survival strategies now available also offer practical support to the cause of progress for the women of the developing world. Inasmuch as child protection strategies save considerable amounts of money, they effectively increase a woman's income. Inasmuch as they prevent illness and disability, they liberate a woman's time and energy. Inasmuch as they save lives and lead to fewer births, they help to liberate women from the trap of too-frequent pregnancy. Inasmuch as they empower a woman to protect her own and her children's health by her own actions, they increase a woman's ability and confidence to take more control over her own life.

Women are crucial to the improvement of infant and young child survival rates, and their social and economic position profoundly affects efforts to tackle this challenge.

III. Obstacles in Africa

Two years ago, Mr. Chairman, we reported on UNICEF's response to the emergency in Lebanon. Last year and this year it is Africa.

UNICEF's response to the the deepening effects of long-term economic recession, adverse climatic conditions and deteriorating environmental resource base, on-going civil strife and famine in sub-Saharan Africa is not to retrench, but to accelerate these child survival strategies and to demonstrate that communities can be mobilized and low-cost techniques for saving lives can be applied under the most difficult circumstances.

Last year, UNICEF issued a second report entitled Within Human Reach: A Future For Africa's Children. The report describes the situation of Africa's children and the availability and applicability of child survival strategies that could enable even poor parents to significantly increase the protection given to the lives and normal growth of their children. The report also highlights some major difficulties with development assistance strategies and policies in Africa. Summaries of these two reports can be found in Attachments A and B, respectively.

Although the emergency relief efforts are nearly completed, for many people in many countries the situation is worsening. This is true not only in the drought-affected countries -- plainly evident in the suffering of at least 30 million people -- but large sections of the populations in other countries are also affected by a combined and varying onslaught from war, "destabilization", rural neglect,

management inefficiency and cutbacks in health, education and other essential basic services.

Many of these are the result of what has become a deep and sustained drought of domestic and foreign resources, which will persist even when the rains return. Domestic inefficiency and decline are inextricably linked with international factors in a downward spiral, with tragic human consequences.

Among the most serious indicators of decline is the evidence of rising malnutrition among under-five children. This is the most vulnerable age group, because periods of hunger, inadequate health and a general lack of energy and stimulus critically weaken a child's early development. For older children, setbacks in health and education rob both them and their respective societies of the full benefit of resources still being put into public services.

International economic forces including recession, deteriorating terms of trade and rising debt burdens, as well as climatic adversities and war and large-scale violence arising from unsettled colonial disputes, have all contributed their share. But it also must be said clearly and loudly that the unfolding African tragedy, the end of which is still not in sight, represents major shortcomings and failures of development policies of national governments as well as external aid-givers.

This failure, increasingly recognized by both national government leaders and external assistance bodies, is encapsulated in the widespread neglect of the human dimension of development. Neglect of the human factors in development

policies and programs is reflected in inattention to basic human needs, failure to give priority to or restructure basic services, emphasis on export crops and marketable surplus at the cost of household food production, neglect of women's role in farming, lack of recognition of community responsibility and involvement in development activities, preference for large-scale and capital-intensive projects, inadequate investment in rural infrastruture , failure to prevent environmental degradation and insensitivity to people's cultural values and motivation.

In the last year and a half, impressive famine relief efforts have been undertaken. Economic salvage operations and reform under the name of stabilization or adjustment programs have been initiated in at least two dozen sub-Saharan countries. But these initiatives are operating within a very short time frame. Economic adjustment measures are overwhelmingly focused on specific financial targets related to repayment of foreign debt; they neglect the human consequences of the economic crises or measures that may promote sustained growth. While the famine relief efforts have helped save lives, they have done too little to address the causes of famine and the long-term needs for recovery.

Unless broadened and reoriented, the adjustment programs and their indiscriminate austerity formula will at best only partially extricate some of the governments from their immediate plight. Broader measures are needed to relieve the suffering of the citizenry, support broad-based regeneration of national economies, seize opportunities to protect the health and survival of children and limit the severity of the ongoing crisis.

The priorities for action outlined in UNICEF's

review of the situation for Africa's children focus on the twin objectives of meeting basic human needs in difficult times and re-building the human foundation for sustained development.

Attention is given to six main areas of action: food self-reliance; preserving basic services as a floor under poverty; recognizing the key role of women; protecting the environment; promoting greater local responsibility in development; and a broader approach to economic adjustment.

Of particular importance to Africa is again the fact that most of these strategies depend as much on the empowering of parents as on the extension of services. And with the expansion of the capacity of many nations to reach out to inform and support their populations, via both the mass media and the mobilization of other organized resources, it is now more possible than ever before to put this knowledge and these techniques at the disposal of the vast majority of parents.

On April 1, UNICEF launched an international appeal for more than $100 million to continue providing emergency and rehabilitation assistance to 16 African countries.

This appeal addresses the critical area of non-food assistance to women and children in need and, includes countries listed in an overall appeal recently launched by the United Nations Office for Emergency Operations in Africa (OEOA).

Continuing famine or the after-effects of the 1983-85 drought in 13 countries - Angola, Botswana, Burkina Faso, Cape Verde, Chad, Ethiopia, Lesotho, Mali, Mauritania, Mozambique, Niger, Sudan and Zambia - as well as the effects of severe economic crisis - notably in Ghana, Madagascar, Sao Tome

and Zambia - has left a total of 25 million people in need of continued external assistance. Four million people face special problems because they have left their homes in search of food and water.

In Ghana, Madagascar, Sao Tome and Zambia, the deepening economic crisis has caused a steep and continuing drop in GNP. Per capita income in Ghana declined from $400 in 1981 to an estimated $210 in 1985; in Madagascar, per capita GNP fell from $320 to $254 during the same period with a further dramatic decrease expected for 1985. In Sao Tome, the comparable figures were $490 in 1980 and $310 in 1983.

In Zambia, a combination of plummeting copper prices and increasing foreign debt cut the average per capita income from $640 in 1982 to $254 in 1984.

In these countries the emergency situation caused by the economic crisis has led to a serious decline in social services available to children and mothers. Infant mortality has been rising in some areas.

We are appealing for $102 million to help meet the urgent needs of women and children in these countries in the areas of health assistance, water supply, supplementary feeding for severely malnourished children and the provision of survival and relief items, as well as support.

UNICEF had appealed in 1984 and 1985 for a total of $120 million for assistance to 20 countries and received donations of $72.4 million from governments, non-governmental organizations and private citizens, plus contributions in kind.

IV. Child Survival: America responds

Mr. Chairman, here at home the need to spread the word through the American public about the opportunities to achieve the goals of the child survival and development revolution is being met.

From March 17 through 21 (just last month), in New York City, Philadelphia, Houston, Atlanta, Minneapolis/St. Paul, and Los Angeles, the National Campaign for Child Survival was launched. The campaign is a two year education effort initiated under a grant from the Carnegie Corporation of New York. With the support of the Honorary Chairmen, Presidents Ford and Carter, and CARE, Save the Children, Catholic Relief Services, InterAction, and the active leadership of Co-Chairs Father Theodore Hesburgh and UNICEF Goodwill Ambassador Liv Ullmann, the Campaign for Child Survival undertakes the task of advancing a world ethic that says children must not be allowed to suffer and die needlessly.

Just as it is unconscionable today to pollute the environment, to discriminate against racial and ethnic minorities or to denigrate women, so too must it be unthinkable for us to continue to allow 40,000 children to die each day from preventable diseases.

The American people have responded to our call for action and are grateful for the leadership this Congress has demonstrated in the past two years in furthering the cause of Child Survival.

Mr. Chairman, this committee took a lead in establishing the Child Survival Fund, and earmarking funds for vitamin A programs, providing the resource base for focused

programming for children by private and voluntary agencies and international organizations.

Last year, as well, members of this committee supported the Concurrent Resolution calling for U.S. participation in the worldwide effort to achieve universal access to immunization by 1990. And members of this committee have co-sponsored S. 1917, to provide funding through the Child Survival Fund to bilateral programs, private and voluntary agencies and international organizations for the global immunization effort.

These actions have consequences far greater than the words or dollars. By these initiatives the Congress has clearly articulated the commitment of the American people to see to it that our foreign aid programs provide families with the knowledge and resources they need to save their children from needless suffering and pointless death.

Even in this year of severe budgetary constraints and political pressures, I do not hesitate to recommend that this committee once again exercise its leadership to provide a continuation of the current funding levels for UNICEF and the other international organizations that provide meaningful assistance to the neediest people of the world.

United States participation in UNICEF and in sister agencies such as the World Health Organization, the U.N. Development Programme, IFAD and IDA, the U.N. Fund for Women, and U.N. Environment Programme, make it possible to believe that one day soon the economic and social development in communities around the world will be sufficient to provide the world's children with the peace and prosperity they deserve.

Mr. Chairman, I would also like to express our support for the work that AID is doing through its Child Survival Action Program and hope that this important bilateral initiative will also be maintained at the current level.

One of the most important actions this committee could take this year is to also provide funding for S. 1917, a bill that would allow the United States to be a full participant in the global effort to achieve universal access to immunization by 1990. This measure adds $50 million to the Child Survival Fund for direct services and support services, including applied research activities, that are in such great demand today.

In this world every year three and a half million children under five in developing countries die from six childhood diseases; two million of them die from measles and nearly one million die from neonatal tetanus. And sixty percent of all children who die as a result of not being immunized against these two diseases live in just five countries - China, India, Bangladesh, Pakistan, Indonesia and Nigeria.

Mr. Chairman, the opportunity to make a meaningful difference cannot be overstated. The United States continues to be the leader in this area and should play a major role in the effort to bring the benefits of immunization against the major communicable diseases of childhood to all the world's children by the start of the next decade.

UNICEF's message is once again full of hope and trust that wisdom and vision will prevail and will impel the policy and opinion makers of the world to invest in the future, in the children.

National governments have commited themselves to a unprecedented degree. External donors from the government of Italy to Rotary, and including the Red Cross and the Vatican, have clasped hands in support of Child Survival programs.

These are objectives which are surely worthy of our common commitment -- even more so in these hostile economic times! Last year this committee took an initiative for children which, along with other donors, public and private, saved over one million additional lives.

With the continuation of your initiative, the years ahead could see the achievement of one of the greatest goals which people have ever set for themselves - basic protection for the lives and the health and the normal development of all its children.

Thank you, Mr. Chairman.

ATTACHMENT A

UNICEF

UNITED NATIONS CHILDREN'S FUND · FONDS DES NATIONS UNIES POUR L'ENFANCE

UNITED NATIONS, NEW YORK

The following is the official summary of the
State of the World's Children report for 1986,
issued by the Executive Director of UNICEF, James Grant.

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The lives of well over one million children have been saved - in the last twelve months - by the recent spread of two of the least expensive of all child protection techniques.

Despite the continuing crisis in Africa, there is therefore dramatic progress to report this year on the struggle

to improve the lives and the health of many millions of the world's children.

World-wide, demand for vaccines has trebled since 1983 and, in the last eighteen months, several nations have doubled and trebled the proportion of their children who are immunized against some of the most dangerous diseases of childhood. In total, 40 nations are now moving towards the United Nations goal of immunization for all children by the year 1990.(*1)

As a result, the number of children's lives being saved by vaccines in the developing world is now approaching one million a year. Meanwhile, the rapid spread of oral rehydration therapy (ORT) is today estimated to be saving approximately 500,000 children a year from death by diarrhoeal dehydration - still the biggest single killer of children in the modern world.

A revolution for children

Immunization and ORT are therefore beginning to lead the way towards the revolution in child survival which has been the main theme of this report for the last three years.

It is a revolution based on a small number of relatively simple and inexpensive methods which are now known to exert especially powerful leverage on child survival and development - methods like ORT and immunization, breast-feeding and improved weaning, maintaining vitamin A levels and checking weight gain, preventing low birth-weights and leaving longer intervals between births.

It is a revolution which could protect young lives from some of the worst effects of the poverty into which they are born - and so reduce child deaths and child malnutrition by half, in many nations of the world, over the next seven or eight years.

It is a revolution which can be put into practice largely by parents themselves. And because it does not depend solely on professional medical services, it has the potential to reach the vast majority of the poor. But by the same token, its success depends on the commitment of a nation's leaders to the task of informing and supporting many millions of parents in becoming effective front-line health workers for their children.

In the process, large numbers of people are becoming involved in putting the primary health care idea into practice. By knowing more and demanding more and doing more about such basic health strategies as immunization and ORT, people are finding a practical starting-point from which to progress, step by achievable step, towards the larger goal of more comprehensive health care and a greater degree of control over their own and their families' health.

Immunization leads the way

In 1985, the Secretary-General of the United Nations wrote to the presidents or prime ministers of all 159 member states of the UN drawing their attention to the new potential for making vaccines far more widely available and asking for their personal commitment to the goal of immunization for all children by the year 1990.

In some nations, that commitment has already been made. As a result, immunization rates have been pushed to 75% or more - as against an average of less than 5% for the children of the developing world only a few years ago. Taken together, they indicate an inflection point in the graph of immunization's progress.

Such a surge forward in immunization exemplifies the combination of scientific and social breakthroughs which now make possible a drastic improvement in child survival and child development in the world's poor communities.

Technical advances in the field of more heat-stable vaccines, disposable syringes, and more effective cold chains have led to a 'supply breakthrough'. But of equal importance is the 'demand breakthrough' by which many nations are now mobilizing, on a massive scale, to inform all parents of the importance of immunization and to make it more possible for all families to benefit from it.

To bring vaccination to people - to inform many tens of millions of parents of the when and the where and the why of immunization and to get many more millions of children to the right place at the right time on several separate occasions each year - is a massive task of communication and organization which cannot normally be accomplished by the conventional health services acting alone.

As a result, immunization coverage has risen only slowly, often reaching only one in five of a nation's children.

Meanwhile, three and a half million children are dying each year, and a similar number are being left permanently disabled, by diseases such as measles, tetanus, whooping cough, and poliomyelitis. And at present levels of vaccination coverage, approximately 20 million children are sentenced to die in the next decade from measles alone.

The vaccines to prevent such diseases have been available for a generation. The cost is approximately $5 per child. The cost of immunizing all children against all six major vaccine-preventable diseases is approximately $500 million per year - slightly less than the cost of three advanced fighter planes.

Clearly, something extra is needed, some new dynamic, some new way of forcefully taking immunization off the pedestal of its vast potential and putting it to everyday work in a million villages and neighbourhoods.

With new vaccines, new communications channels, and new strategies for reaching out to the majority of families, the opportunity for such a breakthrough has now arisen.

In particular, more heat-stable vaccines and the use of disposable syringes in the hands of community volunteers on certain set days or weeks of the year are now opening up broad new paths towards universal immunization. Disposable syringes can mean that the cumbersome process of sterilization becomes unnecessary. Volunteer training can mean that the presence of a fully qualified doctor is no longer required. And village vaccinators receiving supplies of improved vaccines on just two or three occasions a year (and using them within days of their arrival) can mean that it is no longer necessary to maintain expensive and unreliable cold-storage depots in

thousands of outlying areas.

Social mobilization

Variations on these new approaches are already being pioneered by the nations now moving towards higher levels of immunization coverage. Some examples:-

In Brazil, twice-yearly National Vaccination Days have mobilized no less than 400,000 volunteers to support the health services in manning over 90,000 vaccination posts and bringing immunization within walking distance of almost every family. At the same time, the mass media have made sure that virtually every parent in the country is well informed about the time, place, and importance of the immunization days. On television and radio, 30-second immunization 'ads' have been broadcast twenty times a day, and in 1,000 parishes Catholic priests have talked with millions of parents about the need to get their children immunized.

In Colombia, the full immunization of 75% of all under-fours has been achieved by the setting up of over 10,000 immunization posts across the nation - in schools, civic centres, market-places and parks as well as in the health clinics. To create the demand, major newspapers and almost all radio and television stations have supported the campaign and 200,000 teachers have made announcements in the nation's schools. On the Sunday before each National Vaccination Day, priests preached immunization from the pulpits in over 2,000 parishes. In total, over 120,000 volunteers helped with the organization of the campaign and approximately 13,000 volunteers from the Colombian Red Cross assisted the health services with the actual vaccination of over three-quarters of a million children.

In El Salvador this year, the immunization of over a quarter of a million children has been made possible by the government and the guerrillas, by the health services and the Catholic Church, by the Rotarians and the Boy Scouts, by the Red Cross societies and the international agencies, by radio and television, by the 3,100 health workers who went house to house to inform parents of the campaign, and by the 20,000 vaccination-team members who manned over 2,000 temporary health posts across the nation.

In Turkey, the 1985 campaign to immunize over 80% of the nation's children and save 500 lives per week has involved not just the health services but the President and Prime Minister, all 67 valis (provincial governors), the armed forces, the schoolteachers, companies, the voluntary groups, and almost all departments of government. The mass media gave the equivalent of $10 million in air-time and the muftus and imams delivered sermons in support of the immunization programme from 54,000 mosques.

In Nigeria, the health services have been able to push the immunization rate in the test area of Owo from 9% to over 80% within twelve months by enlisting the support of the community leaders, the schoolteachers, the traditional chiefs, the mass media, the Muslim leaders, the Catholic bishops and priests, the international agencies and the local voluntary organizations. That achievement is now being attempted in all of Nigeria's 19 states.

For all these achievements, the health services have provided the medical expertise. But that technology has been made available to 80% instead of 20% of the people because

it has been geared to working through a range of organized resources with a 'social reach' going far beyond the usual outreach of the health services themselves.

Recent developments have therefore made universal immunization possible even at today's levels of economic development. But making universal immunization possible by no means makes it inevitable. And the catalyst which is so desperately needed to convert this new potential into the actual vaccination of all children is the political commitment of a nation's leadership.

BASIC PROTECTION FOR ALL CHILDREN

Immunization depends as much on parents as it does on the medical profession. But the second of the great opportunities now available for protecting the lives and the normal growth of the world's children depends even more heavily on parental knowledge and action.

At present, the dehydration induced by diarrhoea is estimated to be killing almost 4 million young children each year and undermining the nutritional health of many millions more.

Most of those lives can be saved if parents know when and how to use oral rehydration solutions. Such solutions can be made with one of the 200 million sachets of oral rehydration salts now being mass-produced in the developing world each year. Or they can be made at home using either salt, sugar and water or one of the effective traditional remedies (such as rice conjees).(*2)

In other words, there is now an incredibly cheap, simple, and safe method by which parents themselves, however poor, can protect the lives and growth of their children against one of the most common causes of child malnutrition and child death in the modern world.

At present, only about 20% of the world's families know enough about ORT to be able to use it. But it is already estimated to be saving the lives of half a million children a year.

Vitamin A

ORT and immunization therefore stand in the front line of a revolution in child survival. But they do not stand alone. Over the last three years, The State of the World's Children has brought together research and experience from around the world to show that several such knowledge breakthroughs have now been made.

Specifically, previous years' reports have demonstrated that knowledge about breast-feeding, improved weaning, and regular monitoring of children's growth could, along with immunization and ORT, save the lives of at least half the 40,000 children who are now dying each day in the developing world.

*It has been found, for example, that babies in poor communities who are bottle-fed are two or three times more likely to die in infancy than babies who are breast-fed. Reversing the trend towards the use of artificial infant formulas could therefore save the lives - and protect the health and growth - of hundreds of thousands of children.

*It is also now thought that regular growth checking, along with advice on affordable changes in methods of child feeding, could drastically reduce both the incidence and severity of malnutrition. Such changes might include the introduction of other foods (in addition to breast-milk) as soon as weight gain falters, more frequent and persistent feeding (especially during and immediately after any illness), the inclusion of green vegetables and small amounts of oils or fats in the daily diet.

*This year, another potential breakthrough has been added to the list. The findings from a major study in Indonesia appear to have confirmed that a lack of vitamin A in the child's diet, long known to be a major cause of blindness, is also an important determinant of a child's overall health. Even in reasonably well-nourished households, the lack of vitamin A was found to be associated with a very much higher level of respiratory and diarrhoeal infections and with significantly higher levels of child deaths. In areas already reached by low-cost vitamin A supplements, it was found that the child death rate was more than 30% lower.

Should these findings be confirmed, then the maintenance of an adequate level of vitamin A will join the range of low-cost, parent-based ways of protecting the health and lives of children in the poor communities of the world. For even if the six-monthly capsules are not available, adequate vitamin A levels can be cheaply maintained by parents themselves - if they are empowered with the knowledge that vitamin A is vital for their children's health and if they know that it can be provided by the dark-green leafy vegetables which are among the commonest and cheapest foods in most regions of the developing world.

The social breakthrough

Together, such advances in knowledge about basic health protection add up to a potential revolution for the developing world's children.

But as with immunization technology, the real potential of knowledge breakthroughs about ORT, about infant-feeding methods, or about vitamin A levels, resides in the fact that most of these techniques are cheap and simple enough to become part of a mother's normal way of bringing up and caring for her children. And this means that the benefits of this knowledge could be made available to all children and not just to the few who have access to sophisticated medical facilities. The challenge of the child survival revolution has therefore become the challenge of finding ways and means to mobilize much more far-reaching forces in order to inform and support many millions of parents in using new knowledge to bring that revolution about.

Some examples of social mobilization for mass vaccination have already been mentioned, but several nations are also now demonstrating that the strategy of mobilizing all possible organizations and channels of communication can be used to put other low-cost methods of child protection at the disposal of the majority:-

In Bolivia, where over 100,000 children have been dying each year from diarrhoeal dehydration, over 5,000 oral rehydration units have now been set up - 70% of them community-based - and over 2 million sachets of oral rehydration salts have been distributed.

In Haiti, over 80% of parents in the slums of Port-au-Prince - and 30% in the rural areas - have now begun to use ORT. Sachets of the salts have been distributed through thousands of small commercial outlets and demand has been created by promoting the ORT idea through newspaper and radio advertisements. One day's training in ORT has been given to organized groups who are in regular contact with a wide public - schoolteachers, health workers, agricultural extension workers, traditional healers, and over 15,000 members of the Boy Scouts.

In Colombia, President Betancur has announced a National Plan for Child Survival and Development - "to prevent the deaths of 60,000 children every year". In launching the campaign, the President announced: - "We are going to reach each house, each one of our 3.6 million children under five years of age. And we are going to work with all families towards implementing simple actions of proven effectiveness in the protection of children's health".

In India, where the Prime Minister's commitment has opened the way for a nation-wide campaign to immunize all children over the next five years, other child protection strategies are already going into action via the Integrated Child Development Services (ICDS) and the Urban Basic Services schemes - huge outreach projects, which, in the case of the ICDS alone, are now providing basic care to 10 million of India's poorest children.

In Bangladesh, the government's National Oral Rehydration Programme is distributing over 17 million sachets of oral rehydration salts each year and the mass media are helping to create the demand by carrying the ORT message into millions of homes. Meanwhile the Bangladesh Rural Advancement Committee (a non-governmental organization) has trained and fielded almost 1,000 ORT workers who have so far visited over 5 million mothers and 15,800 schools to give practical demonstrations of why, when and how to use home-made oral rehydration solutions.

In Indonesia, child survival strategies are being introduced into two-thirds of the country's 67,000 villages. A few days' training has been given to hundreds of thousands of volunteer nutrition kaders who are now able to advise parents on basic health and infant feeding and refer more difficult cases to one of over 5,000 clinics.

In Thailand, more than half of the nation's 3.3 million under-threes are now regularly weighed to check their growth and more than half of the nation's parents have begun to use ORT to treat diarrhoeal illness.

In Egypt, death rates from diarrhoeal disease have been halved by ORT in a large pilot campaign which has now been extended to the whole nation. Approximately 8,000 doctors have been retrained and, as of mid-1985, 4,000 clinics had started to use ORT against the diarrhoeal dehydration which kills more than 80,000 Egyptian children each year. Television commercials for ORT have been broadcast nightly and 80 million sachets of salts a year are now being locally produced and made available both from health posts and from thousands of commercial pharmacies.

In the Sudan, these basic child survival strategies are proving their sharpened relevance in the midst of drought and famine. Through the emergency operations, and through the large-scale water supply programmes, ORT and immunization are

combating the diarrhoeal and other diseases to which overcrowded refugee camps and emergency feeding centres are particularly vulnerable. So far, close to 6 million sachets of oral rehydration salts were distributed in 1985 and hundreds of community health workers have been trained in their use. Reports UNICEF's office in Khartoum: "All who have used the salts - including the previously sceptical - say that their effect is remarkable."

Resources for outreach

In short, an extraordinary beginning has been made. And in all of these cases, it is clear that the 'social breakthrough' in ways and means of reaching out to the majority of parents is just as important as the scientific breakthroughs which have recently been made in our knowledge about child health.

Steadily over the last ten or twenty years, many nations have levered themselves into a position to make that 'social breakthrough'.

An important example is the growth of the formal education system itself. In a single generation, the developing nations have more than doubled the proportion of their children who are enrolled in school. And today, at least 80% of all children have at least a few years in formal education. By contrast, only about 20% of the developing world's children have any regular contact with formal health services. In Indonesia, for example, there are 5,000 primary health centres with one doctor each as opposed to 100,000 schools with an average of six teachers each. In other words, the school system is one of the most important channels of communication with the vast majority of today's and tomorrow's parents.

A second major resource for reaching a majority of all parents is obviously the mass media. With a total of 8,000 radio stations transmitting into almost every home, television reaching 50% to 60% of the people in most urban areas, and rising literacy bringing in its wake a rising newspaper readership, the developing world's electronic and print media now have the potential to reach the majority of the people in almost all regions.

In many countries, the communications resources of organized religion - of the priests and the Catholic Church in Brazil, Colombia and El Salvador, of the imams and Muslim leaders in Indonesia, Oman, and the Philippines, and of the Buddhist priests in the villages of Burma and Sri Lanka - are helping to bring new knowledge about child protection to many millions of parents - and from a most trusted source.

In almost all countries, the private voluntary organizations - an estimated 6,000 in Bangladesh and 12,000 in India, for example - now represent an enormous resource for informing and supporting the people of the poorest villages and neighbourhoods where children are most at risk. In virtually every child survival campaign which has reached out to the vast majority of a nation's parents, the non-governmental organizations have played a vital part.

Primary health workers

But experience has shown that all of these new ideas about health are put into practice more effectively if there is a health worker, even one with only a few weeks' or

months' training, who lives in the community and who is there at the time the mother most immediately needs the advice about how to use the new oral rehydration therapy, about going for an injection in pregnancy, about whether to take a child for a third vaccination, about continuing to breast-feed or about when to begin weaning. If such a person is part of, and available to, the community then all other messages from all other sources are more likely to take root.

At the moment, there is still a long way to go before every village and neighbourhood has access to modern knowledge via a resident trained health worker. In most developing countries, 75% or more of the health budget is still devoted to hospital and doctor-based care for less than 25% of the population. But despite this, progress has been made in the past few years. Almost all developing nations have now adopted primary health care as official policy. In some, that commitment is so far only rhetorical; in others, there has already been a very significant rise in the numbers of community health workers:-

In India there will soon be a total of 600,000 health guides in villages throughout the country. In Burma, over 25,000 community health workers and 8,700 auxiliary workers have been posted. In Thailand, 43,000 village health workers and over 419,000 'health communicators' have been trained to bring basic health messages to families in over 90% of all villages. In Pakistan, 15,000 traditional birth attendants have now been trained in basic mother and child protection strategies. In the Republic of Korea, community health practitioners are now available to more than 80% of all rural people. In Bangladesh, there are now 23,000 trained midwives with 30,000 more to be trained by 1990. In Tanzania, 90% of the population now lives within 10 kilometres of a health post. In three-quarters of all the developing countries, there are now training programmes for the traditional birth attendants who are relied upon by the majority of the world's mothers for help and advice in matters of bearing and caring for children.

In summary, the techniques and the knowledge for a revolution in child survival are now available. The capacity to inform and support parents in bringing that revolution about - and beginning to put primary health care into practice - is also in place in most nations of the world. And what is needed to fuse these two elements into a practical movement for improving the lives of the world's children is the political will and commitment to do it.

In several nations, nations where that political commitment has already been demonstrated, it is already clear that there is going to be a steep fall in the rate of child malnutrition and child deaths over the next few years. And this achievement will in turn accelerate the progress now being made to reduce population growth. For when parents have more confidence in the survival of their existing children, they tend to have only the number of children they actually want. That is one reason why nations which have already achieved spectacular reductions in child deaths - nations such as China, Sri Lanka, the Republic of Korea, Cuba, Costa Rica - have also now achieved the lowest birth rates in the developing world.

THE BENEFITS FOR WOMEN

Such a reduction in both child births and child

deaths would obviously have a major impact on the lives of women. But it is also women who will, in practice, carry the major responsibility for bringing that change about. For whether we are talking about breast-feeding or weaning, oral rehydration therapy or immunization, regular growth checking or frequent handwashing, it is the well-informed and well-supported actions of mothers which can put such strategies into effect.

In most poor communities, women are already working too hard and too long. It is therefore important to look at what a 'child survival revolution' offers to the world's women - as well as at what it demands of them.

Apart from a steep reduction in child deaths, the present opportunity holds out to mothers the hope of a correspondingly steep reduction in child illnesses and disabilities.

From the perspective of the industrialized world, the demands on the developing world's women caused by the sheer frequency of child illnesses are hard to imagine. In very poor communities, children may be ill for 30% to 50% of their young lives. With several children to look after, a mother may be permanently coping with the illness of at least one child. This not only takes time, it also costs money. Many families in the developing world spend over 10% of their income on illness - in travelling to clinics, in medicines, and in fees to doctors or traditional healers.

Regular growth checking, applying new knowledge about infant feeding and weaning, taking a child for a full course of vaccinations, knowing when and how to use ORT - taken together these actions could result in at least a 50% reduction in the time, energy, money, and worry which a woman expends on coping with child illness.

But in addition to the techniques already discussed, three other forces have been shown to be such powerful determinants of a child's chances of survival and normal growth that they must be considered as part of the present potential for a revolution in child survival and development. And all of them exert powerful upward leverage on the well-being of women themselves:-

Family spacing: Leaving at least two years between one pregnancy and the next can reduce the risk of an infant's death by 50% or more. But it is also one of the most important ways of maintaining the health of mothers whose bodies are depleted by the heavy stresses of almost continuous pregnancy, child-bearing, and breast-feeding.

Female education: The education of the mother has been found to be perhaps the most important social determinant of a child's chances of survival - even allowing for differences in economic class. But it too is one of the most powerful forces for improving the lives of women themselves. Even with only four or five years of schooling in which to achieve basic literacy, a woman stands a very much higher chance of acquiring the knowledge and the confidence to plan and space her pregnancies, to make use of available health services, to discover and apply new knowledge, to earn a higher income, and to participate in family and community decisions.

Food supplements: A relatively small amount of extra food each day for at-risk pregnant women has been shown to reduce the incidence of low birth-weight - the single most

important physical indicator of a new-born's chances of survival and normal healthy growth. But as well as being a key element in child survival, extra food is obviously just as vital for maintaining the nutritional health of the mother herself.

The principal child survival strategies now available therefore also offer practical support to the cause of progress for the women of the developing world. Inasmuch as child protection strategies save considerable amounts of money, they effectively increase a woman's income. Inasmuch as they prevent illness and disability, they liberate a woman's time and energy. Inasmuch as they save lives and lead to fewer births, they help to liberate women from the trap of too-frequent pregnancy. Inasmuch as they empower a woman to protect her own and her children's health by her own actions, they increase a woman's ability and confidence to take more control over her own life.

SELF-HEALTH

The present potential for a revolution in child survival is part of a wider shift in the concept of health care itself.

World-wide, it is now becoming clear that the next generation of advances in human health will come not via more medical services but via the return of primary responsibility for health to the individual, the family, and the community.

As a World Health Organization expert committee, drawn from professors of medicine and directors of health services in both industrialized and developing nations, has recently reported:-

"The attitude that health care is someone else's responsibility is linked to the fact that, in the past, health professionals have taken away from the people their decision-making power with regard to health. Therefore an effort must now be made to give them back their confidence and to help them develop their skills in making the right choices".

In the industrialized world, for example, it is now thought possible that a change towards healthier life-styles could push average life expectancy to well over 80 years - something that even a doubling or a trebling of today's vast expenditures on medical services could not hope to do.

In the developing world, it is clear that the kind of 'self-health' actions discussed in this report could significantly reduce the rate of death and malnutrition among infants and young children. In part, the relevance of 'self-health' resides in the fact that professional medical services are not available to the majority. But an equally important factor is that doctors and hospitals - even if they are available - cannot create anything like as strong a bulwark of basic protection around a growing child as can be provided by the informed actions of the child's own parents in the child's own home:-

Whether a woman will have a little more rest and a little more food in pregnancy; whether she will go for at least one pre-natal check and anti-tetanus injections; whether her infant will be breast-fed and for how long; when she will begin weaning and with what mix of foods; how and how often to prepare a child's meals; whether to pay particular attention to feeding a child during and after an illness; whether to make up

and use an oral rehydration solution during episodes of diarrhoea; whether to check the child's weight gain regularly; whether to take a child on three separate occasions to be immunized; and whether or when to have another child - these are all decisions which have far more effect on whether a child lives or dies, whether a child grows normally or is stunted, than anything a doctor or a hospital can do. And whatever the other influences at work, they are all decisions which are taken and acted upon by the family itself.

Professional medical services are not therefore the child's first line of defence against poor health and poor growth. And only if parents can again come to see themselves as the most important of all front-line health workers, will present knowledge bring its benefits to the majority of the world's children.

Blaming the victim

The idea of 'self-health' therefore has great potential in the years ahead. But its appeal should not be allowed to obscure the fact that, in all societies, wealth is usually the most important determinant of health. In Bangladesh, the children of the landless labourers are twice as likely to die in infancy as the children of the large landowners. In the United States, black children are twice as likely to die in infancy as white children.

In the developing world, the elements which contribute most to poor health are the lack of clean water, safe sanitation, decent housing, basic education, land reforms, and adequate incomes - all of which require action by governments and the international community.

The limits to self-health are therefore as real as its potential. In particular, it must not be used as an excuse for governments to 'blame the victim' and abrogate their responsibilities for providing essential services and tackling the political and economic causes of ill health. Families doing more must not mean governments doing less. And self-health is an idea which poor communities are to be supported in rather than abandoned to.

CHILDREN AND DEVELOPMENT

Protecting the lives and health of children is not only an immediate humanitarian objective, it is also a means and an end of long-term human development. For there is a profound connection between the mental and physical development of children and the social and economic development of their nations.

By the age of three or four years, 90% of adulthood's brain cells are already linked and physical development is advanced to the point where the pattern is set for the rest of a person's life. Those early years therefore cry out for protection, not only in defence of the child's right to develop to its full potential but also as an investment in the development of people so that they may more fully contribute to the well-being of their families and their nations. World Bank studies, for example, have shown that spending on basic health care and primary education can lead to significant increases in productivity and economic growth.

Recession

But in the real world of recent years, neither the humanitarian nor the economic case for 'investing in children' has made much progress against the head wind of economic recession.

Even in nations where there has been no visible famine, the adjustment to economic crisis has often meant a cutting back of the kind of services which are essential for the protection of both life and long-term develcpment. Food subsidies for pregnant mothers and children are being reduced or abolished and in some regions malnutrition is measurably on the increase. Clinics are being closed and immunization programmes are being hindered by the lack of fuel and spare parts for vehicles. Spending on essential social services has fallen even in countries with the most praiseworthy track records of commitment to the protection of the poor.

Africa, as all the world knows, has been particularly hard hit. Apart from the cruelties of climate, the nations south of the Sahara are suffering because 80% of their export earnings come from raw materials whose average price fell by almost 50% between 1979 and 1982. Combined with higher oil prices and rising debts and interest rates, the fall in earnings has precipitated economic crises and led to the introduction or imposition of 'adjustment policies' to cope with international pressures.

As UNICEF has argued in its special report on the African child, 'adjustment policies' need not and should not involve increasing the poverty and deprivation of a nation's poorest families. Specifically, they should not be allowed to threaten the lives and the normal growth of th most vulnerable section of any community - the children of the poor.

A better way has to be found. In the crisis of Africa, a crisis as much of the world's making as of Africa's own, justice demands that the international community should share in the challenge of constructing a safety net of basic protection through which the poorest families and children will not be allowed to fall.

The first strands in that safety net of protection are the strategies for protecting the lives and the growth of the poorest children. The main methods discussed in this summary - breast-feeding, improved weaning (including supplementary food for those most at risk), immunization, oral rehydration therapy and growth monitoring - are among the most vital of all available techniques for meeting the needs of both immediate survival and the long-term need for the protection of growth. And because all of them can be put into action at relatively low cost, they are practical symbols, in the field of child well-being, of the possibility of coping with economic crises at the same time as investing in, rather than mortgaging, the future.

The choice is ours

Throughout the poor communities of the developing world, present knowledge holds out the opportunity to provide, for the first time, a basic minimum protection for the lives and growth of all the world's children, and to do so at a very low cost and in a very short time.

Several nations are already beginning to take up that opportunity - and with some remarkable early results.

To fulfill this potential, it is clear that - above all else - parents need to be empowered with information and enabled with support. They need the support of their own political leaders and of the international community, of the health services and of all branches of government, of the community health workers and the mass media, of the schoolteachers and the religious leaders, of the community organizations and the women's movements, of the employers and the trade unions, and of people's movements in both developing and industrialized nations. There is therefore an opportunity for almost every individual and organization to help in bringing about this significant improvement in child survival and development.

If this opportunity is taken, then the years ahead could see the achievement of one of the greatest goals which mankind has ever set for itself - protection for the lives and health and normal development of all its children. If that opportunity is not taken, then the 1980s and 1990s will be rightly stigmatized as the generation which failed to protect and maintain the hard-won progress of the post-war years and presided over the paradox of unprecedented financial and technical capacity with the continued malnutrition, stunting, and death of millions of its most vulnerable citizens.

The choice is ours.

(*1) The target of providing immunization for all children by 1990 was adopted by the World Health Assembly in 1977 and is one of the key elements in the World Health Organization's overall goal of 'Health for All by the year 2000'.

(*2) In the first instance, ORT means continuing to give a child food and fluids during an episode of diarrhoea. To replace the essential fluids and salts, home-prepared oral rehydration solutions can be administered by the parents. Approximately 10% of all cases will need more specialized treatment (such as the sachets of WHO/UNICEF formula oral rehydration salts, or even intravenous therapy). But in all cases, the risk and severity of dehydration is reduced, and the effectiveness of more specialized treatments is increased, by the early administration of oral rehydration in the child's own home.

ATTACHMENT B

UNICEF

UNITED NATIONS CHILDREN'S FUND · FONDS DES NATIONS UNIES POUR L'ENFANCE

UNITED NATIONS, NEW YORK

The following is the official summary of
Within Human Reach: A Future for Africa's Children
A UNICEF Report

A year has now passed. Yet the pictures from Africa that shook the world live on with the same intensity as ever. They have been repeated, month after month. Ethiopia, Sudan, Somalia, the reports come in, echoing from one country to another. The same massive exodus in search of food. The same figures moving across the landscape. A last flicker of life in front of the camera and another child is laid to rest.

But there is more than an echo, there is a reverberation; a fundamental message is being given now about the state of a continent. The drought and the famine are only the obvious symptoms of a deeper malaise, a vulnerability starkly revealed by a hostile climate, but ever-present and intensifying as one year follows the next.

The widening gap between Africa and the rest of the world has received too little attention. Even in 1980, before the onset of the present crisis, some 30 per cent of the children in many African states were malnourished. And there is evidence of a further decline in nutrition standards -- the result of a whole number of pressures of which drought is just one.

This UNICEF report documents that decline. The facts should be better known. The reasons need to be explored. But it is written from the conviction that, for all the apparent intractability of Africa's problems, there are steps that can be taken -- and are being taken -- to confront the crisis. There are new weapons that can break through the old barriers. There is hope.

It is our central conviction that the future for Africa's children is within human reach. Not just that mankind as a whole has the ability to solve these problems -- for it certainly does -- but that the answers lie within the grasp of individual human beings, in giving them the power and the freedom to seize today's opportunities.

Peasant farmers could be given more incentives -- and more support -- and allowed to grow much more of the food that the continent needs. Women, whose labours have been invisible to economic planners for generations, could be brought to the centre of the stage. Children, who are dying needlessly, could be protected rapidly from the commonest childhood illnesses. Communities themselves could start to organize the service they need, in water and sanitation, health and education.

Agriculture and the Neglect of the Human Contribution

Africa's greatest failures have sprung from the neglect of the human contribution. The optimistic plans and projects have been drawn up on a huge and impressive scale -- and have started with urgency and goodwill. But for all the political support and the international backing they have often failed to benefit the ordinary African, they have not made the human contact that is the only guarantee of success.

Agriculture has been the most evident victim of this approach. The small family farms that are the source of most of the continent's food have too often been left to struggle along -- while attention has been given to the cash crops and larger farms or plantations which have absorbed most of the investment and the expertise. And the women, who work in the fields eight to ten hours a day, have been treated as though they did not exist -- such training and credit as has been available is directed by men, for men.

Small wonder then that Africa's food production per person has been dropping year after year. It declined seven per cent during the 1960s and 25 per cent during the 1970s, climaxing in the disastrous crop failures of 1983 and 1984.

Around 140 kilogrammes of cereals per capita is considered to be the minimum for a healthy diet. In the drought year 1984, production in sub-Saharan Africa is estimated to have gone below 100 kilogrammes, but the projection for non-drought years in the future indicates that the 100 kilogramme mark will be the norm by 1988 if present trends continue.

A difficult position, certainly, but by no means impossible -- not if Africa's subsistence farmers are given the kind of support that the more commercial farms or large estates have come to expect. In Zimbabwe, for example, the country's peasant farmers have just harvested a million tons of maize from their two to three acre plots -- enough to feed the whole country on their own. They have been helped, it is true, by the return of the rains, but their crop is many times greater than they have produced before. The real difference is that, for the first time, the peasant farmers too have received high-yielding seed, they too have been offered credit and just as important they have had the kind of price for their crop that has given them the incentive to grow a surplus. Their abiding problems of poor soil and erratic rainfall remain, but a start has been made towards a more productive peasant agriculture.

Practical Actions in Child Survival

Africa's generally dismal record in food production has had its inevitable consequences for the health of its children. Four to five millions die in infancy each year and millions more suffer debilitating diseases. In most sub-Saharan countries 25 per cent of the children below five years of age are underweight.

But here too there are fast and effective actions that can be taken. The elements of the Child Survival Revolution offer immediate, practical actions that can be taken at low cost and with a minimum of technical expertise. Oral rehydration therapy, for example, may be one of the simplest medical breakthroughs of recent years, but its implications are profound. Parents on their own can treat their children for dehydration from diarrhoea, safe in the knowledge that they are

using one of the most advanced and effective treatments possible. No matter where they are, no matter how isolated the village, the solution is always at hand. Oral rehydration therapy is gaining ground in many African countries from the Gambia to Kenya. But the opportunities for its general use are still enormous.

But the least exploited and most potent health measure that could be taken in Africa today is immunization. Universal coverage is still a long way off. A survey of 35 sub-Saharan countries has shown that only 8 countries have more than 70 per cent of children under five vaccinated against measles. In Somalia and Sudan less than 10 per cent of the children have had the BCG or polio vaccinations, and the coverage, if anything, is falling.

Yet this is an area where a sudden surge of attention can make up for such widespread deficiencies. In Nigeria, where some 200,000 children have been dying each year from immunizable diseases, the government has a comprehensive programme to achieve universal immunization by 1990. And in Burkina Faso, a nationwide "commando operation" for immunization was carried out in late 1984, during which some 85 per cent of the children under five were vaccinated against three major diseases: measles, yellow fever and whooping cough.

Simple health measure like these are the basis of a long-term survival plan for Africa's children. But they are no less relevant in the heat of today's emergency. Refugee camps give children an intense exposure to the dangers that will confront them throughout their childhood. The risks from diarrhoea, from whooping cough, from measles, from contaminated water are all heightened by gathering them together under the most extreme conditions.

They are heightened too for those who have not yet left their homes but become increasingly vulnerable as their families face shortages of food and water. They too need the kind of protection that immunization and oral rehydration therapy can provide.

This kind of emergency is not an isolated incident; not an earthquake or a typhoon. It is part of a process. It is the result of a gradual build-up of influences and forces that take place over a year or a season, reach a climax and then ultimately some form of resolution. And a recognition of this process and how it develops can produce a much more effective and considered response.

Education and Development Projects

Identifying vulnerable groups before they have to abandon their homesteads and take to the road can avoid much of the suffering, disruption and added danger that travelling to a strange new place can bring. The intervention that makes sense will vary from place to place, but one simple and effective solution is to use more food aid as payment for work on development projects where people live, thus supporting action to build up local production and self-reliance for the longer term. Another approach is to sell, in the capital city, food that has been given for aid. Money rather than food can then be distributed in the areas at risk. Even in Ethiopia at the height of the famine there was no absolute shortage of food; people were starving because they did not have the money to buy

it. Their own harvest had failed, but neither they, nor anyone they could depend on, could supply them such food as had been produced elsewhere. By distributing cash it is possible to draw food towards hungry people through the normal marketing chain.

Treating an emergency as part of a process, as the beginning of the next stage of development, also highlights some of the important directions for relief programmes. Within the refugee camps it is important, for example, that family and community structures are preserved in readiness for their return to a normal life. Organizing educational programmes for both adults and children can both occupy their time and serve to introduce useful ideas on childcare and sanitation. And if a widespread food distribution is needed, much more can be achieved if this is build into well-organized food-for-work programmes rather than merely handed over to people in a queue -- programmes that offer some of the next steps forward.

One of the gravest mistakes which could now be made is to conclude that Africa cannot afford to make progress, that she must wait until times are better before investing in the health of her children, the development of her agriculture, the training of her population.

But many of the most radical and effective measures could be taken within existing resources. A programme that could improve health standards for the mass of the population could be financed by diverting money from expensive city hospitals to rural health workers. A progessive education system that would equip Africa's children with vital information and skills could be substantially created by the reform of the existing divisive and inappropriate schooling methods. Changes could be made in farming and livestock-rearing which would help to half the encroachment of the desert. Clearly much more could be done with more money, and this should be made available, but there are many opportunities even within existing resources.

The shame is that, at this of all times, money is being taken out of Africa, through payments of interest and amortization on debt at very high levels in relation to export earnings. So instead of struggling to maintain services through the present emergency the pressure is now on African governments to reduce their already low standards.

Investment for the Future

Africa is being drained of funds because the crisis that assails her is not confined to her own shores. The international recession has hit African countries very hard -- particularly those which rely heavily on the export of one or two primary commodities like copper or cocoa, or which now face high interest rates on previous borrowings. Some 80 per cent of Africa's export earnings come from commodities and as demand for these has fallen, so have the prices -- 44 per cent between 1979 and 1982 -- and despite a rise in 1983 they have continued to fall since 1984. This drop works to the benefit of the industrialized countries and provides a considerable flow of "aid" from poor countries to rich.

Such flows have a profound affect on a country's balance of payments. And African governments have had to undertake severe stabilization measures to reduce imports and get their accounts back into balance. It may be unjust that they should have to make internal adjustments for problems

which have been created externally, but in the present economic climate they have very little choice.

These adjustments have, unfortunately, had their greatest impact on the poorest sections of the population. This seems to be the inevitable outcome of applying measures which have become traditional in such circumstances: reducing government expenditure, restricting credit and restraining wages. For some countries it can be argued that this is in the interests of long-term economic health and prosperity. But increasing doubts have been raised as to the value of such remedies in Africa's current plight.

The immediate human costs can be enormous. And for communities which already live so close to the brink, further cuts in services can become a matter of life and death. Humane considerations alone should demand a reconsideration. But the doubts extend also to the long-term benefits that such an approach can bring to African economies -- it seems likely that rather than emerging healthier they will be pushed further down a steeper and steeper spiral.

A much more convincing case can be put now for the kind of investment in African economies that will help them restructure and reduce their vulnerability in the future Africa will need, over the next five years of so, something like the flow of funds that went to Europe after the Second World War. The sum involved may be large in terms of what is currently available for Africa. But they are certainly not large in relation to world resources. And without such investment, African economies are likely to move on from one crisis to the next.

The most productive part of this investment will be in people. A healthy, educated and skillful population is the driving force that can take African countries through this crisis and beyond. A future for Africa's children is within human reach -- if all Africans are allowed the strength and the opportunity to grasp it.

EXPLORING THE GLOBAL POTENTIAL FOR MORE EFFICIENT USE OF ENERGY

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Abstract. The possibilities for making more efficient use of energy resources in developed and developing countries alike and the ongoing shifts to less energy-intensive economic activity in developed countries indicate that economic goals can be met cost-effectively with far lower inputs of energy than is recognized in most forecasts of future global energy needs. Detailed analyses of the US and Swedish situations suggest that it would be feasible to reduce by half per capita energy use in developed countries at the same time per capita GDP increases 50-100% over the next several decades. For

developing countries it would be feasible to support living standards ranging from present levels up to those in Western Europe in the 1970s with about the same per capita energy use as today, depending on the emphasis given to modern energy carriers and energy-efficent end-use tech-nologies. Viable low energy demand futures would provide considerable flexibility in energy supply planning, making it feasible to avoid over-dependence on the more costly and troublesome supply sources. While new public policies would be needed to facilitate the realization of such low energy demand futures, the needed efforts would probably require only a coordinated use of familiar policy instruments and not radical institutional innovations.

INTRODUCTION

In 1980 the average rate of primary energy use in developing countries was only 1.0 kW per capita, compared to 6.3 kW for developed countries and 11.1 kW for the United States.* These disparities, the strong historical correlation between the level of energy use and economic well-being, and the prospect of continued population growth suggest that a major expansion of the global energy supply is needed, to bring about a decent standard of living for the rapidly growing majority of the world's population now living in poverty and to allow for continued economic growth in the developed countries. Indeed, most well-known analyses of the global energy problem envisage that global energy use some 40 to 50 years from now will be from 2 to 4 times the 1980 level of 10 TW (1-3). But major expansions of most global energy supplies would pose serious global problems.

Consider the global energy projections made in the 1981 study of the Energy Systems Program Group at the International Institute for Applied Systems Analysis (IIASA) (1). In the IIASA low and high growth scenarios global primary energy demand would grow at average rates of 1.5 and 2.5 percent per year, 1980-2030, reaching levels 2.1 and 3.4 times the 1980 level by 2030. Counting only commercial energy use the growth rates would be slightly higher,

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* Energy use rates are presented here in kW per capita, an abbreviation for kW-years/year. 1 kW = 10^3 Watts = 31.54 Gigajoules/year. At the global level energy use rates are presented in TW, an abbreviation for TW-years/year. 1 TW = 10^{12} Watts = 31.54 Exajoules/ year. Oil use rates are also expressed in millions of barrels of oil per day. 1 million barrels of oil per day = 50 million tonnes of oil/ year = 0.0708 TW. Both final and primary energy energy use values are presented: final energy is the energy received by users for consumption at the point of use; primary energy includes also the losses in the conversion of energy resources into final energy carriers and in delivery to final energy users. Commercial energy is that which is purchased in energy markets; non-commercial energy is that which does not enter into market transactions -- mainly fuelwood and other biomass energy forms that are gathered for domestic purposes in rural areas of developing countries.

1.8 and 2.8 percent per year, respectively. For comparison commercial energy use grew worldwide at average rates of 3.6 percent per year, 1925-1972, and 2.1 percent per year, 1972-1984. Thus the IIASA analysts envisage future growth to be slower than long term historical rates but comparable to or faster than growth since the first oil shock.

Energy expansion at the rates projected in the IIASA analysis would be difficult, however, both because the world is making a shift to high cost energy sources, and because the projected increments are so large in absolute terms. IIASA analysts project that the average final energy production costs will increase by 2030 to about 2.9 to 4.2 times the average 1972 values (4). The scale of the supply expansion effort can be appreciated by noting that: new fossil fuel productive capacity to meet targetted incremental and replacement demand is equivalent to bringing on line every one to two months a new Alaska pipeline (2 million barrels per day of oil equivalent); the targeted build-up of nuclear power would require bringing on line every 4 to 6 days 1 GW(e) of nuclear generating capacity. Anyone familiar with the problems that have plagued the energy supply industry in the 1970s and 1980s can appreciate what a formidable undertaking this would be. In addition, the targeted energy supply expansion would pose major societal risks.

First, because the IIASA scenarios involve an expansion of worldwide oil production, from the 1983 level of 56 million barrels per day to the range 71 to 96 million barrels per day by 2030, there would be a major shift back to dependence on the Middle East/North African region, which holds more than half of the remaining oil resources outside of centrally planned economies. In the IIASA scenarios this region would be producing in 2030 at its estimated productive capacity of 33.6 million barrels per day, up from 15 million barrels per day in 1984. The market economies of the world would be dependent for 40 to 55 percent of their oil on the Middle East/North African region. In 1979, when the Middle East/North African region produced 26 million barrels per day, the market economies got 50 percent of their oil from the Middle East/North African region, a level of dependence which made it possible for producers to double the world oil price in the aftermath of the Iranian revolution. Moreover, the subsequent creation of the U.S. Rapid Deployment Force to assure the industrialized market economies of continued access to Persian Gulf oil and the presence of mobile Soviet forces in the region indicate the potential for U.S.-Soviet conflict arising from Middle East turmoil, a danger which escalates when oil market conditions become tight.

Second, associated with the projected 1.8- to 3.0-fold increase in the use of fossil fuels in the IIASA scenarios, there would be a build-up of CO_2 in the atmosphere to a level which is 1.5 to 1.6 times the pre-industrial level by 2030, assuming that half of the released carbon dioxide remains in the atmosphere. If there were zero growth in fossil fuel use thereafter, the

result would be a doubling of the pre-industrial atmospheric carbon dioxide level sometime between the middle and the end of the 21st century. Owing to the so-called "greenhouse effect" the global average temperature would be some 3.0 ± 1.5 degrees C warmer than at present as a result of a doubling of the atmospheric carbon dioxide level, and the temperature increment at the poles would be several times as large as this global average, leading to a slowing down of the "atmospheric heat engine" and to a marked change in the global climate (5).* This global warming would create both winners (e.g., crop production would be enhanced in some areas because of the higher atmospheric CO_2 level and increased rainfall in some areas) and losers (e.g., because of drier conditions in other areas). The problem is complicated by the present inability of scientists to predict the consequences of the CO_2 buildup with precision, the likelihood that many of the changes will have been established irreversibly before reliable predictions can be made, and the fact that major societal adjustments would be required in a period of a century or less, which is a mere instant in geological time.

Third, the increase in dependence on nuclear energy in the IIASA scenarios, from a worldwide installed capacity of 225 GW (e) in 1984 to a capacity of 2600 to 4400 GW (e) by 2030, would lead to a marked increase in the risk of nuclear weapons proliferation, which arises because the reactor fuel plutonium can also be used to make nuclear weapons. Because uranium resources in the world are limited, a high level of nuclear power development requires a shift from the present generation of "once-through" nuclear fuel cycles to the much more uranium-efficent breeder reactors, which require the reprocessing of spent reactor fuel to recover plutonium for use in fresh reactor fuel.# The IIASA scenarios imply that by 2030 some 2.6 to 4.0 million kg of plutonium would be recovered each year from spent reactor fuel and circulated in global commerce. Some 5-10 kg of plutonium are required to make a nuclear weapon. It is difficult to imagine international institutions capable of adequately safeguarding essentially 100% of this material against occasional diversion to nuclear weapons purposes by either terrorist subnational groups or by governments.

The risk of proliferation by governments is far greater with nuclear technologies requiring plutonium recycle than that associated with the present generation of once-through fuel cycles. In the latter case the acquisition of

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* The actual global heating in this time frame would be considerably greater, because of the other radiatively active trace gases man is adding to the atmosphere (5).

The IIASA nuclear power projections include 1700 to 2600 GW (e) of fast breeder reactor capacity in 2030.

nuclear weapons would require the construction of dedicated facilities for weapons production. This route to nuclear weaponry is deterred both by the difficulties in arriving at consensus as to the desirability of acquiring nuclear weapons within a governing bureaucracy and the risk of getting caught and punished by members of the international community, acting unilaterally or in concert. In contrast, with plutonium recycle technologies, a country acquires nearly all the technology and materials needed to make nuclear weapons quickly (e.g., in a time of international crisis) without ever having to make an explicit decision to acquire such weapons. This route to nuclear weapons, which has come to be called "latent proliferation," involves relatively low risk to the would-be proliferator and is exceedingly difficult to control institutionally (6).

Emphasis on energy sources other than fossil fuels and nuclear energy in the IIASA energy demand scenarios would not change this outlook much. If half the increment in global demand provided in the IIASA scenarios by fossil and nuclear energy sources in the period 1980-2030 were instead provided by solid, liquid, gaseous, and electrical energy carriers derived from biomass, the required biomass would be some 12 to 24 billion tonnes of dry biomass per year. This additional biomass production would require, at an average productivity of 10 dry tonnes per hectare per year,* a plantation land area equivalent to 100 to 200 percent of the world's arable land or to 1/3 to 2/3 of the world's forest area. The low efficiency of photosynthesis thus leads to major land use constraints at high levels of bioenergy production. Hydro and wind resources, though attractive at favorable sites, would also not be be able to provide major fractional contributions to the global energy budget at the high demand levels of the IIASA scenarios. There are other renewable energy sources (e.g., photovoltaics) that would not be so constrained, but these alternatives are not yet commercially proven.

Such considerations about the problems inherent in energy supply expansion would lead many to believe that the necessary price of global economic well-being is the acceptance of major enviromental and global security tradeoffs. This is an unduly pessimistic judgment, however, because it implicitly assumes that the historical strong correlation between living standard and level of energy use cannot be changed. There is now strong evidence that the once "sacred" energy/GDP coupling can be broken. The energy price shocks of the '70s have already provided evidence of decoupling.

In the US per capita primary energy use fell 11.5 percent between 1973 and

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* The assumed productivity is an average for the large land areas considered. Much higher productivities would be feasible in areas where conditions for energy plantations would be especially favorable.

1984, at the same time per capita GDP increased by 17 percent. The decoupling of energy use and GDP has been especially pronounced in recent years, with the energy intensity of the economy (in MJ per $) declining at an average rate of 3.5 per year, 1979-84. For OECD countries in aggregate, per capita primary energy use declined 6 percent in this period, at the same time per capita GDP increased 18 percent.

In this paper the prospects for further decoupling of energy and economic growth are discussed for both developed and developing countries, drawing on the results of an End-Use Oriented Global Energy Project, for which more detailed analyses are presented elsewhere (7,8).

THE END-USE APPROACH TO ENERGY

Most long-term energy projections are derived by relating aggregated energy use variables to highly aggregated measures of economic activity and to average energy prices via historically determined correlations. This type of analysis may be adequate for looking to the future in a trouble-free world where only slow, continuous changes take place, but it is inadequate for understanding important dimensions of the energy problem when the energy system is being or could be perturbed in significant ways.

The alternative "end-use" approach adopted here takes as the obvious point of departure the fact that the use of energy is not an end in itself. Energy is useful only insofar as it provides energy services (lighting, cooking, refrigeration, mechanical work, etc.) in ways that improve quality of life. The end-use approach facilitates an understanding of trends in the demand for energy services that are often obscured by the energy analyses that rely on more aggregated descriptors of the energy demand. And it facilitates an understanding of the roles of alternative technologies for providing energy services, including more energy-efficient end-use technologies.

Future annual energy demand E is estimated in the end-use approach via sums of the form:

$$E = \sum_{\text{all } j} (\text{activity level for activity } j) \times (\text{energy intensity for activity } j).$$

In the present paper this equation is used to construct a global energy demand scenario for the year 2020, to illustrate the possibilities for more efficient energy use. Though not a forecast of what will happen, this scenario is an energy future that could be achieved via deployment of energy-efficient end-use technologies that are both technically and economically feasible.

Activity Levels

The appropriate indices measuring activity levels vary from activity to activity. In the case of residential lighting, it might be the total number of lumen-hours of delivered light (average lumen-hours per bulb times the number of bulbs per household times the number of households); for air travel, the number of passenger-km of travel.

Future activity levels can be estimated either by means of historically determined correlations with projected economic and demographic indicators, adjusted as appropriate to take into account identifiable structural changes in the economy [as we have done in our US (9,8) and Swedish (10,8) country studies] or activity levels can be targeted to conform to societal goals (e.g., a societal policy to electrify rural villages in a developing country might give rise to more rapid growth in lumen-hours of lighting than would occur without such a policy).

Energy Intensities

Energy intensities can vary markedly for a given activity, depending on the end-use technology employed. In exploring the possibilities for energy efficiency improvement we restricted our analysis to technologies which are economical (for commercially available technologies) or judged to be economical (for the few technologies we considered which are still in an advanced state of development) on a lifecycle cost basis, with future costs discounted at the market rate of interest. For attractive technologies meeting this test we estimated the potential impact on overall energy demand if technologies with the indicated energy performance were introduced at the normal rates of capital stock turnover and growth.

Our economic criterion can be illustrated with an example. Consider the use of compact fluorescent lightbulbs (introduced recently by several lightbulb manufacturers) as alternatives to incandescent bulbs. These bulbs, which can be screwed into incandescent sockets, use much less electricity and last much longer than incandescents but have much higher first costs.

The lifecycle cost for a particular 12 W bulb offered by Sylvania having the same output as a 40 W incandescent bulb is shown in Figure 1 as a function of the electricity price. Note that the compact fluorescent is less costly on a lifecycle cost basis for electricity prices in excess of 2.5 cents per kWh, the "cost of saved energy" (defined in the caption to Figure 1) for the more efficient bulb. This bulb would be cost-effective in most countries, as residential electricity prices are usually higher than this.

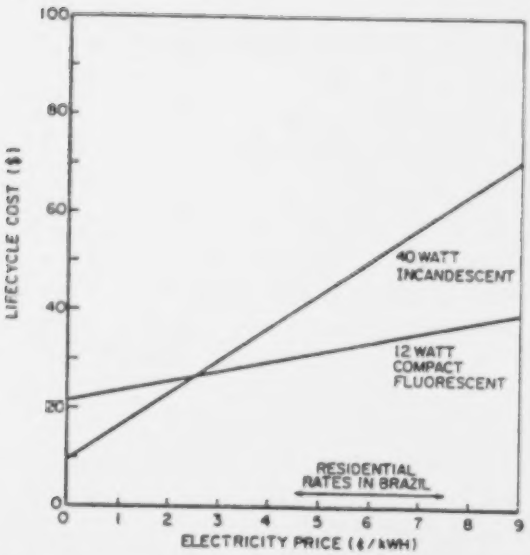

Fig. 1: The lifecycle cost (the discounted present value of expenditures on capital and electricity), assuming a 10% discount rate, for 40 W incandescent bulbs (each lasting 1000 hours and costing $0.50) and 12 W Sylvania compact fluorescent bulbs with the same light output (each lasting 10,000 hours and costing $5). The lifecycle is assumed to be 20 years, the expected life of the $10 adapter required with compact fluorescent bulbs.

The point of cross-over is at an electricity price equal to the "cost of saved energy" (CSE) for the more efficient bulbs. The CSE is equal to the present value of the difference in first costs of the two kinds of bulbs, divided by the present value of the electricity savings arising from the use of the more efficient bulbs. The CSE is a measure which permits a direct comparison of the cost of an energy efficiency improvement with the price of energy that would otherwise have to be provided.

Despite the economic attractiveness of many energy-efficient technologies, such technologies often will not be readily adopted by consumers. As is well-known consumers are very first-cost sensitive and make economic decisions using implicit discount rates far in excess of market interest rates (11-15). But public policies could be adopted which facilitate lifecycle costing. For example, electric utilities might make compact fluorescent lightbulbs available to their customers "on the installment plan," with utility loans at market interest rates to be repaid on the monthly utility bills. Customers would be powerfully motivated to obtain the more efficient bulbs this way because their monthly bills (for electricity plus loan payment) would be less than with conventional bulbs.

Because society would often be better off if consumers based their energy

purchase decisions on lifecycle cost considerations, some kind of public policy initiatives promoting "least-cost" energy strategies may be desirable -- both for situations where the least cost is simply the direct lifecycle cost seen by the consumer and for situations where the total cost includes important external social costs not adequately reflected in market prices. This is the spirit in which our energy scenario should be interpreted.

A GLOBAL ENERGY DEMAND SCENARIO

Using the above described end-use methodology we constructed a global energy demand scenario, key aspects of which will now be described, first for developed and then for developing countries.

Developed Countries

Our analysis for developed countries is based largely on our findings for the United States (9,8) and Sweden (10,8), regarding both future activity levels and opportunities for more efficient energy use.

FUTURE ACTIVITY LEVELS The energy future of developed countries will not be simply a larger version of the past because of ongoing structural shifts to less energy-intensive economic activities. The nature of ongoing structural changes can be understood by considering changing patterns of end-use activities, sector by sector.

Residences: Because of the slowing of population growth, the number of households is growing much more slowly than in the past -- in Northern Europe not at all. As for household amenities, most households in industrialized market economies cook with modern fuels, have electric lights, refrigerators, and domestic hot water, and, where needed, are provided with space heat from a central heating system. Extra income spent on amenities for the home now tends to be spent on value-added intensive products of little consequence for energy use -- low power equipment (e.g., home entertainment equipment, home computers, etc.) or high power equipment operated a small percentage of the time (e.g., power tools for the shop or garden). Because energy use in the home is no longer a sensitive function of income, estimation of future activity levels is much simpler than it would otherwise be. In the US country study, for example, very little generality was lost in assuming for 2020 100% saturation for all energy-intensive appliances except air conditioning, which is not needed in most areas were it is not already in wide use (9).

Commercial Buildings: The ongoing shift of production and employment from the goods to services in the industrialized market countries implies continuing growth in the stock of commercial buildings (offices, stores, schools, hospitals, etc.). While the potential for growth in services is large for the post-industrial society, the shift to services represents an overall reduction in the energy intensity of the economy, as energy use in commercial buildings,

per dollar of value-added in the service sector, is typically an order of magnitude less than energy use per dollar of value-added in industry.

Transportation: While automobile and light trucks dominate transportation energy use in the industrialized market countries, these light vehicles are already so widely used that the prospects for future growth are limited. In the US, there are 0.83 light vehicles per adult, and the average American already spends an hour a day in the car (9). The situation is similar in Sweden (10).

While the use of the automobile is not likely to increase much with income, such is not the case for air travel, where there is little evidence of saturation. In the US, revenues for air passenger travel increased in the 1970s 1.64 times as fast as GNP, a trend which will probably persist (9).

Industry: Perhaps the most significant ongoing structural change from an energy perspective is the shift in industry away from the the extraction and processing of basic materials and toward the production of more value-added intensive goods that involve more fabrication and finishing.

While it is widely recognized that the basic industries are in trouble, the causes are not widely understood. The reasons cited most often for the decline of the US steel industry, for example, are losses to foreign competitors — due to lower costs for labor elsewhere, subsidies to foreign producers, and, more recently, the strength of the dollar. While such "supply side" factors are indeed contributing to the decline of steel and other basic industries, declining domestic demand is much more important.

To understand what is happening on the "demand side," we have examined demand trends for various basic materials, measured in kg per capita (16,17). Figure 2 shows the historical trends for a representative sampling of materials in the US and Western Europe — both traditional materials (steel, cement, paper) and more modern materials (aluminum, chlorine, ethelyne, and ammonia). In all cases there was a cessation of growth in consumption per capita, beginning in the 1970s. Moreover, case studies of the market outlook for future sales for each material in the US context indicate zero or even negative growth in per capita consumption of basic materials in aggregate (16,17).

These trends reflect substitution of more modern materials for traditional ones, more efficient use of materials, saturation of markets for bulk materials, and a shift in consumer preferences at high income levels to more value-added intensive goods. Of these four factors, the latter two have

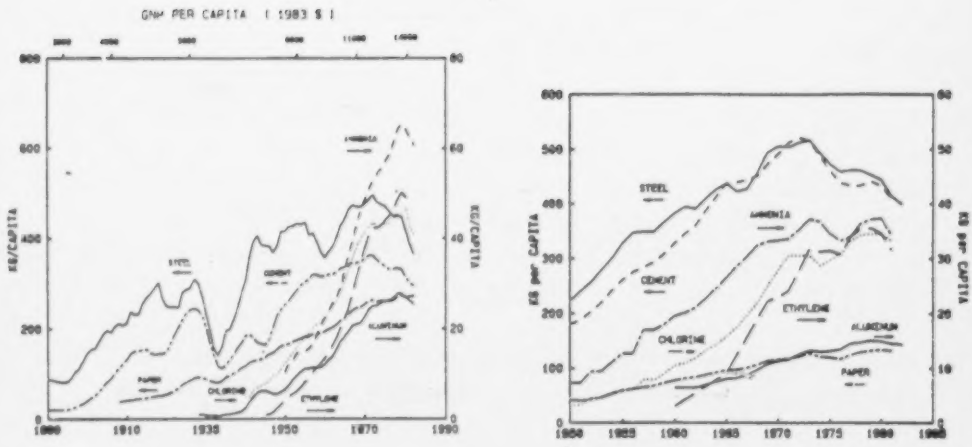

Fig. 2: Historical trends in per capita apparent consumption (production plus net imports) of traditional (steel, cement, paper) and modern (aluminium, ethylene, chlorine, and ammonia) basic materials for the US (left) and Western Europe (right). The data shown are 5-year running averages for the US and 3-year running averages for Europe. The data shown for Europe are aggregates of apparent consumption for the FRG, France, and the UK. The ammonia data are for the FRG and France only. Source: ref. 17.

become especially important over the last decade.

This trend away from basic materials has major implications for future energy demand by industry, because the basic materials processing industries typically require an order of magnitude more energy per dollar of output than the rest of industry (Figure 3). The impact of this structural shift has in fact already been significant: industrial primary energy use per dollar of GNP declined in the US, 1973-84, at an average rate of 3.6% per year, of which the structural shift contributed nearly half, or 1.6% per year (17).

OPPORTUNITIES FOR MORE EFFICIENT USE OF ENERGY The energy price increases of the 1970s have led to new energy-using technologies that are much more energy-efficient than those now in wide use and to major R&D efforts that will lead to even more efficient technologies in years to come. Opportunities exist for large improvements in energy productivity for all major energy-intensive activities, a full discussion of which is presented elsewhere (8). Here the possibilities are illustrated for residential space heating, automobiles, and steel-making -- activities which account for about 30 and 40 percent of total final energy use, respectively, in the US and Sweden.

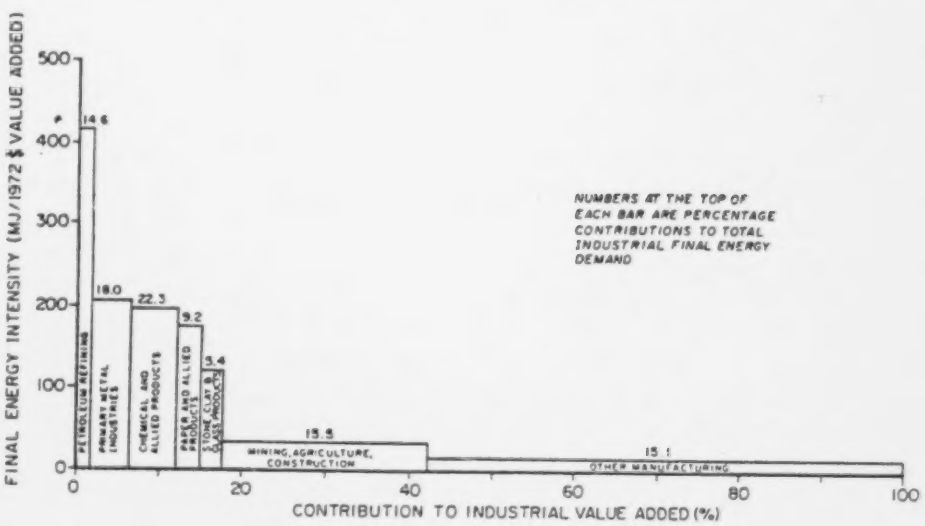

Fig. 3: The final energy intensity of US industry in 1978, in MJ per 1972 dollar of value-added. The value-added measure is gross product originating (GPO). Source: ref. 9.

Residential Space Heating: Energy requirements for space heating can be reduced by reducing heat losses through the building shell and by use of more efficient heating equipment.

Table 1 lists heating requirements corrected for floor area and climate for various groups of new houses in the US and Sweden. The most energy-efficient units shown require an order of magnitude less heat than typical houses in the existing stock! Costs for improving the thermal integrity of houses are often difficult to pinpoint, because they must often be allocated to several purposes. However, one good set of data is provided by a comparison of the prices for two versions of the Faluhus, a prefabricated house offered in Sweden (Table 1). The two versions are identical in every way except for thermal integrity and first cost (the thermally tight version requires 1/5 as much heat and costs $3100 more). The thermally tight version is more cost-effective even at the very low Swedish electricity price; the cost of saved energy for thermal tightening is just 2.6 cents per kWh, which is less than Sweden's electricity price and is low compared to that in other developed countries.

The efficiencies of space heating equipment can also be much improved (18). For gas furnaces, conversion efficiencies have increased in the US from an average of about 69% for new units in 1980 to more than 90% for new condensing

Table 1. Space heat requirements in single family dwellings[a]
(kJ per square meter per degree day)[b]

United States	
Average, housing stock	160
New (1980) construction	100
Mean measured value for 97 houses in Minnesota's Energy Efficient Housing Demonstration Program	51
Calculated value for a Northern Energy Home in New York City area[c]	15
Sweden	
Average, housing stock	135
Homes built to conform to the 1975 Swedish Building Code	65
Mean measured value for 39 houses built in Skane, Sweden	36
Calculated value for alternative versions of the prefabricated house sold by Faluhus[d]	
Version #1	83
Version #2	17

a For details, see references 7 and 8.

b The required output of the space heating system (i.e., heat losses less internal heat gains less solar gains) per unit floor area per heating degree C day (base 18 degrees C).

c The Northern Energy Home (NEH) is a super-insulated home design sold in New England and based on modular construction techniques with factory-built wall and ceiling sections mounted on a post and beam frame. The house has 120 sq. meters of floor area; triple glazed windows with night shutters; 20 cm (23 cm) of polystyrene insulation in the walls (ceiling); 0.15 air changes per hour (ACH) natural ventilation plus 0.35 ACH forced ventilation via a 70% efficient air-to-air heat exchanger.

d The Faluhus has a floor area of 112 sq. meters. The more energy-efficient Version #2 (with extra insulation and heat recuperation) costs 3970 SEK ($516) per sq. meter compared to 3750 SEK ($488) per sq. meter for Version #1. The annual electricity savings for the more efficient house would be 8960 kWh per year. The cost of saved energy (assuming a 6% discount rate and a 30 year life for the extra investment) would be 0.20 SEK per kWh (US$ 0.026 per kWh). For comparison electricity rates for residential consumers in Sweden consist of a large fixed cost independent of consumption level [about 1200 SEK ($156) per year] plus a variable cost of 0.25 SEK per kWh ($0.032 per kWh).

furnaces. Similarly, heat pumps with coefficient of performance (COP) up to 2.5 for air-to-air units and up to 3 for water-to-air or water-to-water units have also become available, compared to an average COP of less than 2 for heat pumps and 1 or less for resistive heating units in the existing US stock.

Fuel requirements for space heating can typically be reduced 50% cost-effectively in existing houses, using a combination of shell modifications and more efficient heating equipment (18) -- much less than what can be achieved with new houses, but significant nevertheless. If promoted with appropriate public policies (e.g., offering utility audits and financing for long term investments in efficiency improvements) such retrofits could affect the entire existing building stock in 30-40 years.

The Automobile: The present global average fuel economy for cars is about 13 liters/100 km (18 mpg). By increasing engine drive/train efficiency and by reducing vehicle weight, aerodynamic drag and rolling resistance, it is feasible to improve fuel economy to the range 4 to 2.3 l/100 km (60 to 100 mpg). The technical possibilities with some already commercial cars, prototypes, and advanced designs are indicated in Table 2.

One concern which has been raised about super fuel efficient cars is their safety. That a lightweight car need not be unsafe, however, is indicated by safety features built into Volvo's superefficient LCP 2000 [3.6 l/100 km (65 mpg)], a lightweight (707 kg) prototype engineered to withstand front and side impacts of 56 km/hour (35 mpg) and rear impacts of 48 km/hour (30 mpg) -- stricter safety levels than for cars currently sold in the U.S. (19). Moreover, with advanced technology, a lightweight design may not be needed to achieve high fuel economy in the future. Researchers at the Cummins Engine Company and the NASA Lewis Research Center have described the design of a heavy (1360 kg, approximately the average for cars sold in the U.S.) car based on the adiabatic diesel engine now under intensive development that would have an average fuel economy of 3.0 l/100 km (79 mpg) (Table 2).

Another concern is air pollution from diesels. However, the use of diesel fuel is not necessary to achieve high fuel economy. The average on-the-road fuel economy of 4.3 l/100 km (54 mpg) achieved with the high-performance 1986 Honda CRX, equiped with a lean-burn gasoline engine shows that substantial fuel economy improvements can be made with gasoline engines. Moreover, spark-assisted, multi-fuel capable versions of diesel engines (e.g., in the Cummins/Lewis car) can use alternative fuels without loss of efficiency.

The economics of automotive fuel economy improvement are indicated in Figure 4, which shows in the US context that for fuel economies ranging from about 7.5 liters/100 km (30 mpg) to 3 liters/100 km (80 mpg) the total cost of

Table 2. Fuel economy for passenger automobiles[a]

Car	Fuel	Fuel Economy [l/100 km (mpg)]		Maximum power	Curb weight	Passenger Capacity
		Urban	Highway	(kW)	(kg)	
Commercial						
1985 VW Golf, Jetta	diesel	5.7 (41)	4.0 (59)	39	1029	5
1986 Honda CRX	gasoline	4.1 (58)	3.2 (73)			2
1986 Chevrolet/Suzuki Sprint	gasoline	3.8 (61)	3.1 (77)			4
1985 Nissan Sentra	diesel	4.7 (50)	3.7 (64)	41	850	5
1985 Ford Escort/Mercury Linx	diesel	4.9 (48)	3.5 (67)	39	945	5
1985 Peugot 205	diesel	5.2 (45)	4.3 (55)			5
Prototype[b]						
VW Auto 2000[c]	diesel	3.7 (63)	3.3 (71)	39	780	4-5
VW-G80[d]	diesel	3.2 (74)	2.4 (99)	29/38	700	4
Volvo LCP 2000[e]	multifuel	4.2 (56)	2.9 (81)	39/66	707	2-4
Renault EVE+[f]	diesel	3.7 (63)	2.9 (81)	37	855	4-5
Renault Vesta[g]	gasoline	2.3 (104)	1.9 (124)	24	511	2-4
Toyota Lightweight Compact[h]	diesel	2.9 (80)	-			5-6
Designs						
Volvo LCP (potential)[i]	multifuel	3.2 (74)	2.35 (100)			
Cummins/NASA Lewis Car[j]	multifuel	3.3 (72)	2.44 (96)	52	1364	5-6

a Based on the US Environmental Protection Agency (EPA) laboratory test. The urban and highway values are often presented for a combined driving cycle involving 55% urban driving and 45% highway driving. To better correlate with actual road performance a new US rating involves multiplying the urban lab test value (in mpg) by 0.9 and the highway lab test value by 0.78. This correction is important for gasoline engines but not for diesels, for which the lab test is a fairly good measure of on-the-road performance.

b Prototype data are from ref. 19.

c Three-cylinder, direct-injection (DI), turbo-charged diesel; more interior space than the Rabbit; engine off during idle and coast; use of plastics and aluminum; a drag coefficient of 0.26 (36).

d Three-cylinder, DI diesel; flywheel start/stop. The higher power version has a supercharger.

e The 39 kW car has a 3-cylinder, DI, turbo-charged diesel engine. The 66 kW car has a 3-cylinder, heat-insulated, turbo-charged, inter-cooled diesel engine with multi-fuel capability. Extensive use of aluminum, magnesium, and plastics; a drag coefficient between 0.25 and 0.28 (37).

f DI, super-charged diesel engine; engine off during idle and coast; low aerodynamic drag.

g Lightweight materials; low aerodynamic drag.

h Three-cylinder, DI diesel; continuously variable transmission (CVT); lightweight materials; large interior volume.

i Volvo LCP 2000 plus CVT, engine-off during idle and coast (R. Mellde, personal communication to F. von Hippel).

j Four-cylinder, DI, spark-assisted, multi-fuel capable, adiabatic diesel with turbo-compounding; CVT; 1984 model Ford Tempo body (38).

owning and operating a car is roughly constant. Sensitive to first costs (11-15), consumers would probably not readily chose high fuel economy models for their energy-saving benefits.

The societal benefits of reduced oil imports, however, may justify public policies (fuel economy standards, gas-guzzler taxes, etc.) that would promote high fuel economy. The societal benefits would include increased global security because of reduced dependence of oil importers on Persian Gulf oil producers and a lower world oil price (Figure 5). Because the automobile consumes one out of every six barrels of oil produced in the world, a shift to fuel-efficient automobiles could be very effective in these respects (20).

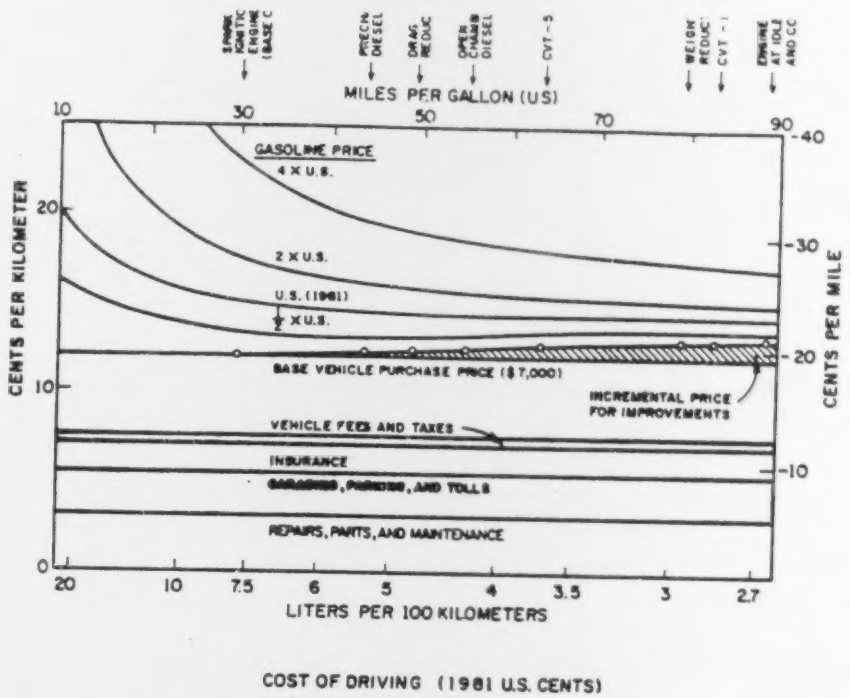

Fig. 4: The cost of owning and operating an automobile as a function of fuel economy. The "base case" car is a 1981 Volkswagen Rabbit with a gasoline engine. The various measures chosen to improve fuel economy are indicated along the top. The fuel economy with these technological modifications was estimated by computer simulation. Source: ref. 33.

Steel Industry: Advanced technologies are introduced in industry, not for the purpose of reducing energy use per se, but to minimize the total cost of production. However, the history of modern industry shows that new processes are most likely to be able to overcome the resistance to technical change and

displace existing processes if they offer opportunities for simultaneous improvements in several factors of production -- reduced labor, capital, materials, and energy requirements (21). This has been such a powerful phenomenon that energy requirements have often been reduced via technological innovation even during periods of declining energy prices. For example, in the US, the energy required to produce a tonne of steel declined at an average rate of 1.4% per year in the period 1947-71, a period of generally falling

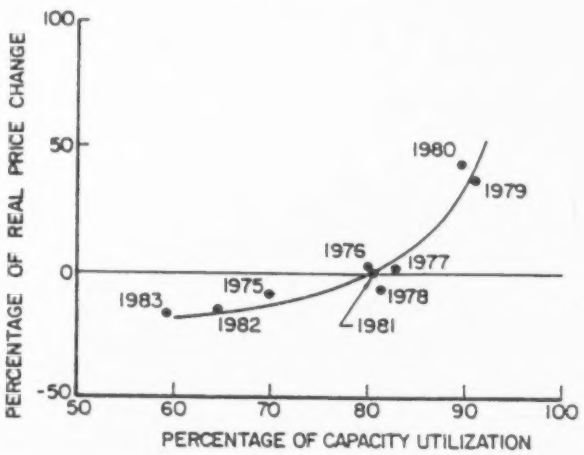

Fig. 5: OPEC pricing behavior: percentage change from the previous year in the real oil price vs. percent of OPEC production capacity used. The percentage of capacity used is the equal to crude oil production divided by the maximum sustainable production for that year. Source: ref. 34.

energy prices; other energy-intensive industries showed a similar trend in this period (17).

Today's high industrial energy prices provide a powerful incentive to seek further improvements, which are possible because in most instances present energy intensities are far from thermodynamic limits. The thermodynamic minimum amount of energy required to produce a tonne of steel is 7 GJ from iron ore (22) and 0.7 GJ from scrap. At present, steel-making in Sweden and the US is based on a 50/50 mix of iron ore and scrap, so that the thermodynamic minimum is about 3.9 GJ per tonne of raw steel. For comparison, the actual energy used to produce raw steel was 27 GJ per tonne in the US in 1979 and 22 GJ per tonne in Sweden in 1976, where the evaluations are done on a comparable basis (8).

The large potential for practical energy productivity increases in steel production is illustrated with iron-making processes now under development in Sweden -- Plasmasmelt and Elred. Final energy requirements are 8.7 GJ/tonne (of which 4.2 GJ is electricity) for Plasmasmelt and 11.9 GJ/tonne (1.3 GJ electricity) for Elred (10). The Plasmasmelt process may be especially appealing in coal-poor, hydropower-rich countries, while in countries where electricity prices are high, less electricity-intensive processes like Elred may be preferable.

Industrial interest in these advanced technologies is only partly for the energy-saving advantages. The primary objective is to reduce overall costs and reduce environmental problems by: (i) being able to use powdered ores directly* without agglomeration of the ore into pellets; (ii) being able to use ordinary steam coal instead of having to process the much more costly metallurgical coal into coke; and (iii) integrating various individual operations. Other promising advanced processes aimed at integrating currently separate operations to save on capital, labor, and energy costs, include direct reduction of iron, direct casting, direct steel-making, and dry steel-making (23).

FUTURE PER CAPITA ENERGY DEMAND IN DEVELOPED COUNTRIES Our analyses of both ongoing structural changes in the economy and major opportunities for energy efficiency improvement along the lines described above for the US (9,8) and Sweden (10,8) indicate that it would be technically and economically feasible to reduce per capita final energy use in the US from the 1980 level of 9.0 kW to 4.2 to 4.6 kW and in Sweden from the 1975 level of 5.4 kW to 2.8 to 3.3 kW, while per capita GDP increases 50 to 100%, 1980-2020.

Much of what we have learned from our analyses of the US and Swedish situations is probably applicable to most other developed countries as well -- especially to many of the countries in the Organization for Economic Development and Cooperation (OECD). The extent to which our findings are relevant to the Council of Mutual Economic Assistance (CMEA) countries is less certain, in light of the lack of progress to date in breaking the historical growth trend in energy use there and the paucity of data available to us concerning patterns of energy use in these countries. But since average per capita energy use levels are comparable in OECD and CMEA countries, while the levels of amenities made possible by energy are probably higher, on the average, in the West than in the East (indicating even lower energy efficiencies in CMEA countries at present), it may be true that what can be achieved in a few countries like the US and Sweden provides an "existence proof" as to what can be achieved in any developed country.

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* Because lower and lower quality ores are being exploited, the required preliminary processing leaves the ore concentrated in powdered form.

We thus assumed for our energy demand scenario that average per capita final energy demand in developed countries can be reduced in half, from 4.9 kW in 1980 to 2.5 kW in 2020.

Developing Countries

To many involved in development planning, the notion of emphasizing energy efficiency in countries too poor to be able to satisfy basic needs seems irrelevant. Yet there are powerful reasons for pursuing energy efficiency improvements, and the practical potential for energy savings is large (24).

THE RELEVANCE OF ENERGY EFFICIENCY Energy efficiency is important for developing countries in part because the elites, who account for 10-15% of the population, 1/3 to 1/2 of income, and most commercial energy use, have energy-using habits very similar to those of citizens of developed countries — and often there are greater inefficiencies in the developing country situation. For example, new two-door refrigerator/freezers that are becoming popular among the elites in Brazil are only 2/3 as large as typical new US units but consume 20 to 40% more electricity (25).

Investments in more energy-efficient oil-using technologies (e.g., automobiles and trucks) would often be cost-effective ways of reducing oil imports, which accounted for 61% and 37% of export earnings of low- and middle-income developing countries in 1981 (26). Investments in energy efficiency often make sense even as alternatives to investments made in "low cost" domestic energy resources to support inefficient end-use technologies. In Brazil, for example, for each dollar the consumer spends on the purchase of incandescent lightbulbs, the utility must invest on average $10 in new hydro-electric supplies (25)! The alternative of investing in more energy-efficient lightbulbs, though requiring more capital investment by the consumer, typically leads to net capital savings by the country because of the electricity supplies that would not be needed -- savings which increase with the discount rate (Figure 6). This result, which holds for a wide range of end-use technologies (27), indicates that investments in energy efficiency will often make even more sense in capital-short, developing countries with many pressing needs than in developed countries!

Even poor households dependent largely on non-commercial energy and having few if any modern amenities tend to use energy inefficiently. The per capita energy use rate for fuelwood stoves, some 0.25 to 0.6 kW (0.4 to 1.0 tonnes of wood per year) per capita, is far in excess of the 0.05 kW per capita rate which is typical for cooking with LPG or natural gas in developing and developed countries alike (Figure 7). The much lower energy use rates for

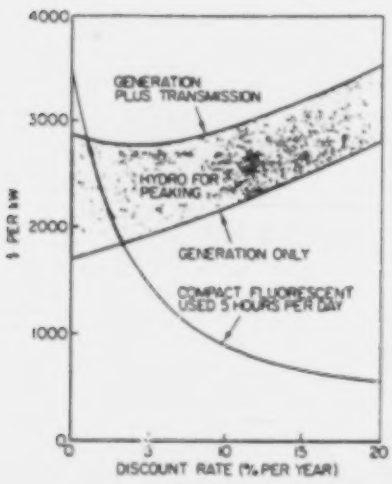

Fig. 6: The discounted present value of the peaking electricity produced via a hydroelectric power system in Brazil or saved via the installation of compact fluorescent bulbs as alternatives to incandescents, in dollars per kW measured at the household. All capital investments over the 50 year lifecycle of the hydroelectric power plant are included.
The cost of hydro supplies increases with the discount rate because of interest charges accumulated during construction. The cost for the more efficient lightbulbs declines with the discount rate because replacement bulbs do not have to be purchased until they are needed. Source: ref. 25.

cooking with modern energy carriers reflects both the better efficiency (40 to 50% versus 12 to 18% for traditional fuelwood stoves) and the better controllability of stoves using modern energy carriers. The high rate of fuel consumption for cooking implies a great expense for the urban poor who buy wood or charcoal for their cooking and for the rural poor a great deal of time committed to wood gathering (especially by women and children) that could otherwise be occupied more productively -- an amount of time which is increasing in many parts of the world, as the process of deforestation makes wood supplies scarcer.

Such considerations show the value of pursuing efficiency improvements based on already developed technologies. It may also be desirable for some developing countries to develop advanced technologies (24). For example, many of the currently available technologies for processing basic materials have been made largely obsolete by the energy price shocks of the 1970s. While more energy-efficient advanced technologies would be more appropriate for the new era of high energy prices, the pace of innovation in these industries will be slow in the the already industrialized countries, because the prospect of

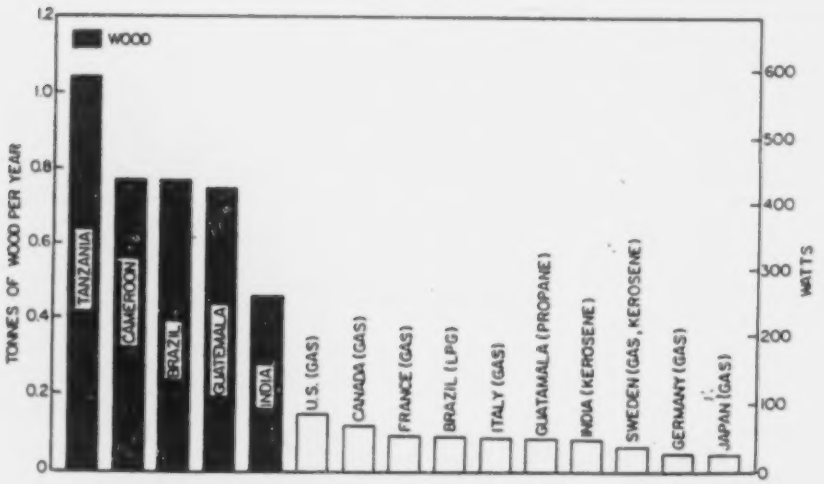

Fig. 7: Per capita energy use rates for cooking. For both wood stoves and stoves using high quality energy carriers, the per capita energy use rate is expressed in Watts. For wood it is also given in tonnes of dry wood per year, assuming 1 tonne = 18 GJ. Source: ref. 35.

slow growth in the demand for basic materials there makes these countries poor theaters for innovation (16,17). In contrast, the potential for major growth in the demand for basic materials in developing countries is a condition conducive to process and product innovations. The successful Brazilian programs (i) to shift cars from gasoline to sugarcane-based ethanol and (ii) to produce high quality steels that are highly competitive in world markets using charcoal derived from eucalyptus instead of coal are existence proofs that such technological leapfrogging is possible (24).

A 1 KW SCENARIO FOR DEVELOPING COUNTRIES Despite the attractions of energy efficiency improvements for developing countries, it is difficult to apply the energy scenario methodology used in the US and Swedish country studies to developing countries -- for two reasons. First, data bases for energy consumption highly disaggregated by end-uses, essential inputs to our analyses for the US and Sweden, are not nearly so well developed for most developing countries. Second, while the approach to saturation for many energy-intensive end-uses greatly facilitated the process of estimating future activity levels in the US and Swedish country studies, activity levels for energy-intensive activities are so far from saturation in developing countries that making meaningful long term projections of energy demand disaggregated by end-use is virtually impossible.

Because of these problems a "thought experiment" involving a fictional country was used instead to explore the possibilities for energy efficiency improvement in developing countries. Specifically, we constructed an energy scenario for a hypothetical future developing country having a mix of energy-using activities similar to that for Western Europe* in the 1970s (excluding space heating, which is not needed in most developing countries) but matched with energy intensities corresponding to either the most energy-efficient technologies available on the market today or to advanced technologies that could be commercialized over a period of about a decade (24,7,8).

The activity levels, end-use technologies and associated energy requirements for this scenario are indicated in Table 3. Total final energy use per capita, obtained by summing over all activities, is about 1.0 kW, or only about 20% more than the average final energy use rate in 1980!

It is possible to achieve the large improvements in living standards characterizing this scenario without increasing energy use, in part because enormous increases in energy efficiency arise simply by shifting from traditional, inefficiently used, non-commercial fuels (which account for nearly half of energy use in developing countries today) to modern energy carriers (electricity, liquid and gaseous fuels, processed solid fuels, etc.). The importance of modern carriers is evident from the above comparison of energy consumption rates for cooking with modern energy carriers and fuelwood (Figure 7) and from the fact that for Western Europe, where non-commercial fuel use is small, per capita final energy use for purposes other than space heating in 1975 was only 2.3 kW, about 2 1/2 times that in developing countries, even though per capita GDP was 10 times as large.

In addition to the energy savings associated with the shift to modern energy carriers, considerable further savings can be gained by adopting more energy-efficient technologies that have recently become available. Some of the technologies assumed for the domestic sector illustrate how large increases in amenities can be achieved without approaching present energy consumption levels of Western Europe: it is assumed that the average household has a refrigerator/freezer with energy performance equivalent to that of the most efficient 2-door unit available in Europe in 1982, a 315 liter unit requiring 475 kWh per year, which is less than 1/3 of the electricity required by the average unit in use in the US; similarly, for lighting, where it is assumed that the level of lighting services is equivalent to that obtained by burning five 75 Watt incandescent bulbs 4 hours a day, the assumed energy performance is that of compact fluorescent bulbs which use 1/4 as much electricity.

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* Strictly speaking, most of the activity levels for the scenario are average values for the WE/JANZ region (Western Europe, Japan, Australia, New Zealand).

Table 3. A hypothetical final energy use scenario (in Watts per Capita) for an affluent, energy-efficient developing country [a]

	Activity Level	Technology, Performance	Electricity	Fuel	Total
Residential[b]	4 persons/HH				
Cooking	Brazilian cooking level w/LPG stoves	70% efficient gas stove		34	
Hot Water	50 l of hot water/capita/day	heat pump WH, COP = 2.5	29.0		
Refrigeration	1 315 l refrigerator-freezer/HH	Electrolux, 475 kWh/year	13.5		
Lights	New Jersey (US) level of lighting	Compact Fluorescent Bulbs	3.8		
TV	1 color TV/HH, 4 hours/day	75 Watt unit	3.1		
Clothes Washer	1/HH, 1 cycle/day	0.2 kWh/cycle	2.1		
Subtotal			51	34	85
Commercial	5.4 sq. m/capita floor space (WE/JANZ ave, '75)	Harnosand Building, Sweden (all uses, ex. space heating)	22	-	22
Transportation					
Automobiles	0.19 autos/capita, 15,000 km/car/yr (WE/JANZ ave, '75)	Cummins/NASA Lewis Car @ 3.0 l/100 km		107	
Intercity bus	1850 p-km/capita (WE/JANZ ave,'75)	0.45 MJ/p-km, 3/4 '75 ave.		26	
Passenger train	3175 p-km/capita (WE/JANZ ave,'75)	0.45 MJ/p-km diesel, 3/4 '75 ave[c]	4.5	32	
Urban Mass Transit	520 p-km/capita (WE/JANZ ave,'75)	0.85 MJ/p-km diesel, 3/4 '75 ave[d]	2.0	8	
Air Travel	345 p-km/capita (WE/JANZ ave,'75)	1.9 MJ/p-km, 1/2 US ave in 1980		21	
Truck Freight	1495 t-km/capita (WE/JANZ ave,'75)	0.67 MJ/t-km, 2/3 of Swedish ave		32	
Rail Freight	814 t-km/capita (WE/JANZ ave,'75)	Electric, 0.18 MJ/t-km, Sweden ave	5		
Water Freight (incl. bunkers)	1/2 OECD Eur ave, '78 (reduced reliance on oil)	60% of ave OECD energy intensity		50	
Subtotal			12	276	288
Manufacturing					
Raw Steel	320 kg/capita (OECD Eur ave, '78)	ave of Plasmasmelt, Elred Processes	28	77	
Cement	479 kg/capita (OECD Eur ave, '80)	Swedish ave in 1983	6	54	
Primary Aluminum	9.7 kg/capita (OECD Eur ave, '80)	Alcoa process	11	26	
Paper and Paperboard	106 kg/capita (OECD Eur ave, '79)	Ave of 1977 Swedish designs	11	24	
Nitrogenous Fertilizer	26 kg N/capita (OECD Eur ave, '79/80)	Ammonia via steam reforming of methane	-	36	
Other[e]			65	212	
Subtotal	Swedish industrial mix w/ '75 W. European level of GDP/capita (55% of Swedish level)	Energy intensity for Swedish industry w/ '75 level of goods and services and advanced technology (9)	121	429	550
Agriculture	WE/JANZ ave, '75	3/4 of WE/JANZ ave energy intensity	4	41	45
Mining, Construction	WE/JANZ ave, '75	3/4 of WE/JANZ ave energy intensity	-	59	59
TOTALS			210	839	1049

Notes to Table 3

a For a country in a warm climate, with a level of amenities (except for space heating) comparable to that in the WE/JANZ region (Western Europe, Japan, Australia, New Zealand, and South Africa) in the 1970s, but with currently best available or advanced energy utilization technologies.

b Activity levels for the residential sector are estimates, owing to lack of data for the WE/JANZ region.

c Here 30% of all p-km are via electric trains, for which the final energy intensity is 1/3 that of diesel trains.

d Here 40% of p-km is via electric systems, for which the final energy intensity is about 1/3 that of diesel buses.

e Here "other" is the difference between the manufacturing total and the sum of the items calculated explicitly. Energy usage associated with "other" for the non-manufacturing sectors is negligible and thus is not shown explicitly in this table.

While most of the technologies indicated in Table 3 are commercially available today, a few are still in an advanced state of development (e.g., for steel-making the assumed energy performance is the average for the Elred and Plasmasmelt processes described above.), although none are "far-out," and we believe that a set of technologies with similar energy performance values could be commercialized in a matter of a decade or so.

Our "1 KW" thought experiment is not intended to establish activity level targets for developing countries, to be achieved by some particular future date. The appropriate mix and levels of activities for the future in developing countries may well have to be different to be consistent with overall development goals. Rather our purpose is to show that it is possible to achieve a standard of living in developing countries anywhere along a continuum from the present one up to a level of amenities typical of Western Europe today, without departing significantly from the average level of energy use per capita for developing countries today, depending on the degree of emphasis given to modern energy carriers and energy efficiency.

On the basis of such considerations, we assumed for our global energy scenario an average per capita level of final energy use of 1 kW for developing countries in 2020. At this level of energy use, the availability of energy *per se* would not be a significant constraint on development.

Total Global Energy Demand

If the rate of capita final energy use in developed countries were reduced in

half and that for developing countries increased slightly to 1.0 kW, 1980-2020, along with population increases to 1.24 and 5.71 billion people for developed and developing countries, respectively,* aggregate global final energy demand in 2020 would be 8.8 TW, only slightly higher that the 1980 level of 8.4 TW. But the demand distribution would be markedly different. The developed countries' share of global energy demand would go from two thirds to one third, and vice versa for the developing countries. Figure 8 shows our scenario in terms of primary energy use, and places it alongside the corresponding projections made by the International Institute for Advanced Systems Analysis (IIASA) (1) and the World Energy Conference (WEC) (2). The

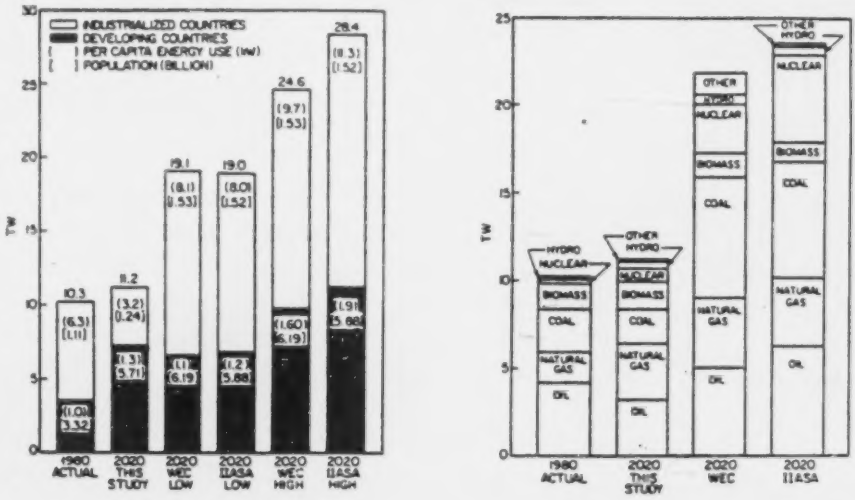

Fig. 8: Global primary energy use, in TW (an abbreviation for TW-years/year) by region (left) and by energy source (right). Details of the projection labeled "this study" are developed in references 7 and 8. The IIASA and WEC study values are from references 1 and 2, respectively. The WEC and IIASA values shown in the graph on the right are averages of those studies' high and low scenarios.

latter studies envisage not only much higher levels of energy use but an increment in energy use by developed countries, 1980-2020, that is 1.1 to 1.8 times as large as that for developing countries; we believe a world with such disparities would suffer intolerable North/South tensions.

While this energy demand scenario is not a forecast of what the energy future will be, it is useful to express this projection in terms of the parameters usually used by economists to make energy demand forecasts. An analysis

* The UN Low Variant projections for 2020 (28).

expressing future energy demand in terms of the parameters of the energy-economy model developed for the U.S. Department of Energy by the Institute for Energy Analysis/Oak Ridge Associated Universities (IEA/ORAU) shows that, with public policy efforts that are neither overly ambitious nor radical, aimed at redirecting the course of the energy future, the energy demand levels indicated by this scenario are consistent with plausible values of price and income elasticities and plausible expectations about future energy prices and GDP growth (7,8).

The plausibility of this scenario vis a vis conventional energy projections is also supported by consideration of its implications for commercial energy demand in relation to conventional energy forecasts. Table 4 shows the evolution of commercial energy for both this scenario and an alternative global scenario involving primary commercial energy use growing at a rate of 2 percent per year -- a rate characteristic of various supply-oriented projections such as those of the IIASA and WEC forecasts (Figure 8).

If global energy were to grow as fast as 2 percent per year, most of the growth would take place in the developing countries, because even under "business-as-usual" conditions energy demand in developed countries would probably grow no faster than population or would decline. One piece of evidence in support of this judgment is the decline in per capita energy use in OECD countries since 1973. Another is the ongoing shift in developed countries away from the processing of basic materials toward services and toward fabrication- and finishing-intensive goods-producing activities, which means that the future economies of developed countries will be much less energy-intensive than at present, even if energy efficiency is not emphasized (16,17). And finally, the economies of the developed countries have not yet fully adjusted to the energy price increases that have already taken place, so that even if there are no more energy price increases or only very modest future price increases beyond the levels of the early 1980s, these economies will become more energy-efficient. A quantification of these factors using the above-described IEA/ORNL energy-economy model shows that under a wide range of plausible business-as-usual conditions and a 50 to 100 percent growth in per capita GDP, per capita energy use in developed countries will not be higher in 2020 than in 1980 (8).

If commercial energy demand grows globally at an average rate of 2 percent per year, while energy demand in developed countries grows only as fast as population, energy demand in developing countries would have to grow at an average rate of 4.8 percent per year and per capita commercial energy use at an average rate of 3.0 percent per year (Table 4). It is unlikely that adequate capital would be available to expand conventional energy supplies at such a rate. The World Bank has estimated that increasing per capita

commercial energy use in developing countries at an average rate of 2.5 percent per year, 1980-1995, would require capital investments in energy supply averaging $130 billion per year, 1982-1992 (26). To meet this target the Bank estimated that real foreign exchange allocations to energy supply expansion would have to grow in real terms at 15 percent per year in this period — a wholly unrealistic target.

Such considerations show that 2 percent per year average growth in global energy use is implausible. In comparison, the energy supply challenges for the scenario presented here would be far less formidable. While commerical energy use per capita would still grow in developing countries at a non-trivial 2 percent annual rate (Table 4), the dramatic reduction of energy demand in developed countries in this period would tend to greatly ease upward pressure on energy prices, making this expansion more affordable than it would be under business-as-usual conditions.

A GLOBAL ENERGY SUPPLY SCENARIO

When energy demand is not too large, there is flexibility in planning the

Table 4. A comparison of scenarios for commercial primary energy use

	1980		2020		Average Growth Rates, 1980-2020 (% Per Year)	
	Total (TW)	Per Capita (kW)	Total (TW)	Per Capita (kW)	Total	Per Capita
Scenario with Global Energy Growth @ 2 Percent per Year and Constant Per Capita Energy Use in Developed Countries						
Developed Countries	7.0	6.3	7.8	6.3	0.3	0.0
Developing Countries	1.8	0.54	11.6	2.0	4.8	3.3
World	8.8[a]	2.0	19.4	2.8	2.0	0.8
Base Case Scenario						
Developed Countries	7.0	6.3	4.3	3.5	- 1.2	- 1.5
Developing Countries	1.8	0.54	6.9	1.2	3.4	2.0
World	8.8[a]	2.0	11.2[b]	1.6	0.6	- 0.5

[a] Excludes 1.5 TW of non-commercial bioenergy.

[b] Includes 1.6 TW of commercial bioenergy.

energy supply mix -- in particular, a welcome flexibility for dealing with problems associated with overdependence on fossil fuels generally, oil specifically, and nuclear power.

Of the many possible energy supply futures that can be matched to the demand patterns described above, one future, involving only very minor shifts from the present situation, is shown in Figure 8, alongside the supply projections made in the IIASA and WEC studies. The primary energy use level in 2020 for our scenario would be 11.2 TW, only slightly higher than the 1980 level of 10.3 TW, but less than half the levels projected in the IIASA and WEC studies.

The scenario construction begins with the assumption that fossil fuel use overall is the same in 2020 as in 1980, with the mix adjusted to reflect considerations of the carbon dioxide build-up in the atmosphere, global security and the world oil price, and the relative abundances of oil and gas resources. Biomass provides the fuels needed in excess of fossil fuels.

Assuming a continuation of the ongoing electrification of the energy economy, electricity's share of global final energy demand would increase from 10% in 1980 to 18% in 2020. Despite this emphasis, requirements for new electricity supply would grow far more slowly (1.6% per year on average, 1980-2020) than in most government and industry forecasts -- so that there would still be considerable flexibility in putting together an electricity supply mix. With a modest expansion of hydropower and a contribution from cogeneration comparable to that from nuclear power, there would be no need to expand fossil-fuel-based central station power generation beyond the present level, even with proliferation-related constraints on nuclear power expansion.

Atmospheric Carbon Dioxide and the Burning of Fossil Fuels

The need to adjust to a dramatically changed global climate could be greatly reduced by reducing dependence on fossil fuels. Such efforts must focus on coal. While using all the remaining ultimately recoverable oil and gas resources would lead to an atmospheric carbon dioxide level of 440 ppm, or nearly 1.5 times the pre-industrial level, using half of the remaining 9 trillion tonnes of coal resources would increase the CO2 level to four times the pre-industrial level.

We modeled future fossil fuel use rates by assuming that: half of the released carbon dioxide remains in the atmosphere; all estimated ultimately recoverable oil and gas resources are eventually used; and coal production falls exponentially over time. The one free parameter is thus the rate of exponential decline, which depends on the ultimate CO2 ceiling level. If the ceiling were as low as 1.5 times the preindustrial level, coal would have to be phased out

rapidly, falling to 1/2 the present level before the turn of the century -- not a practical target. We assumed instead a ceiling of 1.7 times the preindustrial level, which implies that coal use would decline only 20%, 1980-2020, to a level 0.2 to 0.4 times as large as the levels projected in the IIASA and WEC scenarios (Figure 8).

The World Oil Problem

We assumed that the ongoing shift to gas in the world continues, to the extent that by 2020 gas and oil production rates become equal (Figure 8), in light of the fact that while there is about as much recoverable gas left in the world as oil, the present rate of gas use is only 2/5 that for oil. With global oil use reduced thereby from 59 to 46 million barrels per day, 1980-2020, there would probably be adequate oil supplies outside the Middle East/North African (ME/NAf) region at costs less than $30 per barrel (1982 $) to sustain dependence on the ME/NAf region at the 1983 glut level of 15 million barrels of oil per day (8). Keeping production in the ME/NAf region at this level would constrain the OPEC capacity to increase the world oil price (Figure 5) and would provide a hopeful outlook for oil-related global security problems.

The Nuclear Weapons/Nuclear Power Link

If nuclear power growth were sufficiently slow that the economic incentive to pursue plutonium recycle remained low everywhere (by avoiding uranium scarcity), the risks of nuclear theft, of latent proliferation in non-nuclear weapons states, and of merging weapons and civilian nuclear power programs in weapons states could be reduced considerably.

Avoiding reprocessing and plutonium recycle technologies, though politically challenging, should in principle be much easier to accomplish today than was thought possible just a few years ago, since the economics of reprocessing and recycle are not now favorable and would become only marginally favorable at very high uranium prices (7,8).

Since even a ban on nuclear fuel reprocessing and plutonium recycle would not prevent proliferation via the clandestine recovery of plutonium from spent fuel -- the risk of which increases with the extent of world-wide nuclear power development -- it would seem desirable to go further and make nuclear power an energy technology of last resort, limited to those situations where viable alternative energy technologies are not available. With this perspective we assumed that installed nuclear generating capacity increases from the 1980 level of 120 GW(e) to some 460 GW(e) (approximately the level generally expected for the year 2000) and then levels off (Figure 8). This implies that beyond the turn of the century the only nuclear power plants that would be built are those that would replace retired units.

Renewable Energy Resources

One way to cope with the global risks posed by over-dependence on conventional supplies would be to shift to greater dependence on renewable resources. Hydropower is especially promising in developing countries, where only 7% of economical reserves have been developed. We assumed that by 2020 40% of the global economic hydro potential would be developed (29). We limited wind and photovoltaic power combined to 5% of total power production.

We assumed that biomass is provided by a 50/50 mix of organic wastes and biomass grown for fuel on energy plantations or farms, and that efforts are made to use biomass renewably. While the need for biomass as the swing fuel would be about the same as in 1980, there would be an enormous increase in the obtained useful energy services, because we have emphasized efficient biomass conversion and end-use technologies.

Supply Flexibility

We do not claim that the energy supply mix we formulated is optimal in an economic sense or otherwise. Rather we chose a mix which is very similar to that at present and which is not obviously constrained by costs or other factors. Our analysis shows that at or near present global energy demand levels plausible energy supply mixes can readily be identified that would not lead to the troublesome problems which appear to be unavoidable at higher demand levels.

POLICY ISSUES

While the energy-efficient global future described here would be both technically and economically feasible, it is unlikely that market forces can be relied upon to bring about the kind of energy future described here. New public policy initiatives are needed both to make markets work better than they do today and to correct inherent market shortcomings.

For developed and developing countries alike, important policies needed at the national level include: the elimination of subsidies for energy supply; pricing policies that sensitize consumers to long run marginal costs for new energy supplies; stabilization of the world oil price seen by consumers via a variable oil tax that is adjusted with changes in the world oil price and inflation; better information to consumers about cost-effective opportunities for investments in energy efficiency; redirection of capital toward consumer investments in energy efficiency; the regulation of energy performance for activities (such as automotive fuel economy) where energy performance is readily measurable and easily understood; changes in the incentive structures for energy utilities so that they will provide their customers energy services, by encouraging investments in energy conservation as well as supply; subsidies to the poor -- for the energy-efficient provision of services needed

to satisfy basic human needs in developing countries and for investments in energy efficiency in developed countries; and support for research and development on end-use energy.

At the global level policies are needed both to provide support for national policies in developing countries of the type just outlined (support for institution building, the provision of capital, etc.), and to deal with global externalities associated with oil, the nuclear weapons/nuclear power connection, and the carbon dioxide problem.

Since each oil importer would gain from the lower world oil price that would result from the oil import reduction efforts of others, and from some coordination of internal oil prices, it may be desirable to coordinate national oil import reduction efforts with some kind of oil import reduction agreement (30). While such an agreement would lead to lower revenues for oil exporters, even exporters would benefit in the long run from the resulting reduced uncertainties about future world oil demand.

Dealing with the nuclear power/nuclear weapons link could in principle be dealt with by market forces, since the economics of plutonium recycle are poor (7,8). But because some countries are forcing a shift to plutonium recycle despite poor economics (31), it may be desirable to supplement market forces with a denuclearization treaty -- involving both the avoidance of nuclear fuel reprocessing technologies (on the part of nuclear weapons states as well as non-weapons states) and real commitments by the superpowers to move away from dependence on nuclear weaponry (32).

The gradual coal phase-out described here would be one of the most significant policy challenges implicit in the energy strategy outlined here. The CO2 ceiling we have assumed would require limiting coal use in the long run to about 1/4 of the amount of coal available at prices less than 1/2 the world oil price in 1982. Some kind of carbon dioxide control treaty limiting coal use with agreed-upon coal taxes or other control mechanisms may be needed -- perhaps involving the USSR, the US, and China, countries which hold nearly 90 percent of the world's geological coal resources. However, with an emphasis on energy efficiency to the extent implied by the scenario presented here, such a treaty may not be crucial, simply because although coal is cheap, using it is not. Coal is a dirty fuel requiring much more capital investment than either oil or gas to use in environmentally acceptable ways. The prospect of stabilizing the world oil price (and thereby natural gas prices as well) by pursuing energy efficiency improvements world-wide would make coal a much less desirable fuel than in energy futures with growing energy demand.

There remain many unanswered questions as to how best to implement end-use energy strategies. But the kinds of policies most likely needed involve the coordinated use of familiar policy instruments. It does not appear that a pre-condition for bringing about what may be construed as a radical energy future is the creation of a radical new world order (8).

CONCLUSIONS

The long term outlook for energy would be far more hopeful than what is implied by conventional energy projections, if there were a shift in emphasis in energy planning from supply expansion to improvements at the point of energy use.

Such end-use energy strategies would lead to less expenditures for providing energy services than with supply-oriented energy strategies, freeing up economic resources for other purposes. North/South tensions would be eased because of the resulting more equitable use of global resources. For developing countries it appears that with such strategies energy supply availability would not be a constraint on development, basic human needs could be met, and living standards could be increased considerably beyond the satisfaction of basic human needs in the course of the next several decades. And finally, end-use energy strategies would provide considerable flexibility in the choice of energy supplies, so as to be able to mitigate greatly the global problems posed by expanded use of oil, fossil fuels generally, and nuclear power.

While market forces acting alone will probably not lead to the kind of of energy future we have described here, it is unlikey that radical, unprecedented institutional changes are needed. There are several reasons for this judgment. First, the cost to government of pursuing the course outlined here will most likely be far less than that required to bring about the formidable supply expansion efforts implicit in conventional energy strategies. Second, a good track record has already been established in decoupling energy and economic growth in OECD countries. Third, much more can be accomplished cost-effectively with existing technology. And finally, the pace of technical change is swift -- indeed most of the technical opportunities upon which the major findings of the present analysis are based emerged only in the last few years, as part of a world-wide "quiet revolution" of innovation in energy end-use technology, a revolution that shows no signs of fading.

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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1987

TUESDAY, APRIL 22, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:08 p.m. in room S–126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, Hatfield, D'Amato, Specter, and Inouye.

DEPARTMENT OF STATE

BUREAU FOR REFUGEE PROGRAMS

STATEMENT OF JAMES N. PURCELL, JR., DIRECTOR, BUREAU FOR REFUGEE PROGRAMS

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

This afternoon, we continue our fiscal year 1987 budgetary hearings with testimony from three State Department offices: the Bureau of Refugee Programs, the Bureau of International Narcotics Matters, and the Office for Counter-Terrorism Emergency Planning. At the last minute yesterday, we were informed that Ambassador Oakley would not be able to appear today because he has been called to Europe. Instead, his deputy will present his testimony.

The subcommittee contemplated postponing the antiterrorism hearing because of the extensive interest of the members, but instead we may, if there is a desire on the part of a number of members to do so, hold a separate additional hearing on terrorism some time later.

Today we will try to get on the record information required in order to submit the budget request for that program.

RECOGNITION OF MR. PURCELL

Our first witness today is Mr. James Purcell, the Director for the Bureau for Refugee Programs.

Jim, it is my understanding that this will probably be your last appearance before this subcommittee, at least in your current position. I want to tell you that it has been a pleasure working with you and your

associates and we greatly appreciate the job that you have done on behalf of the country and this administration at the Bureau of Refugee Programs. You have been responsible for some difficult decisions in a very difficult area, and I think that you have handled them well.

As you know, as with the other witnesses, your full statement will be included in the record as if read, and we would ask, therefore, that you summarize it so that we might have more time for questions.

SUBMITTED STATEMENT OF SENATOR DECONCINI

I have received a prepared statement from Senator DeConcini which he asks be placed in the record.

[The statement follows:]

PREPARED STATEMENT OF HON. DENNIS DECONCINI

U.S. SENATOR FROM ARIZONA

Last year in this hearing Senator Hatfield and I discussed the influence movies have in contributing toward a real understanding of the refugee matter. The movies "Killing Fields," "Salvador," and "The Official Story" poignantly portray the suffering and displacement characterized by the plight of refugees from South America to Southwest Asia.

Mr. Purcell, you say in your testimony that the news media has not recently focused on any dramatic new refugee crisis but the number of refugees fleeing persecution totals over 8 million people. While Hollywood has provided the United States with a President skilled at public relations and focusing public opinion, I am hopeful that these recent movies will increase American concern and, ultimately, cooperation with these refugees when they have resettled.

The United States consistently maintains that refugee assistance is a matter of international concern, universal responsibility, and a pillar of foreign policy goals. Accordingly, we particularly attempt to resettle refugees with close ties to the United States and meet our dedication to humanitarian objectives. I would like to thank Mr. Purcell and your organization for continuing to lead this very worthwhile cause. I can only add one caveat: That you continue to successfully monitor these funds in the future. Money spent overseas in the area of refugee programs accurately represents and reflects the citizenry of the United States.

STATEMENT OF SENATOR D'AMATO

Senator KASTEN. Before I ask you to proceed, I would like to ask Senator D'Amato if he has any opening statement or any other question before we begin our first witness.

Senator D'AMATO. Thank you very much, Mr. Chairman.

Mr. Chairman, first let me thank you for holding these hearings, and I want to thank Mr. Purcell and Ms. Wrobleski and Mr. Borg for appearing. Today's hearing will address three, I think, of the most critical problems facing the Nation and the world: terrorism, drug trafficking, and the severest refugee situation since World War II. It is incumbent upon us to deal with the problems adequately and to provide sufficient funding for the important domestic programs, as well.

ANTITERRORISM FUNDING

I note, Mr. Chairman, that although we initially looked for $9.84 million, that figure was cut as it relates to antiterrorism assistance, ATA, to $7.1 million. I am pleased that this committee will recommend increasing this program funding to the full authorized level of $9.84 million in the fiscal year 1986 supplemental appropriations bill.

I believe that the ATA program is one of the most important in constructive counterterrorism projects.

The work, Mr. Chairman, of the Bureau of International Narcotics Matters is important to every State, every town, every citizen. While I appreciate the effort of INM to reduce the supply of the illicit drugs by interdiction and eradication, these programs can really have little impact unless we act much more decisively in other areas.

ANTIDRUG PROGRAM

I believe we have got to reduce the demands for drugs, by fostering drug education and rehabilitation programs, both in this country and in drug-producing nations. I think we must insist on much more aggressive efforts of drug-producing nations on behalf of law enforcement and on behalf of the persuasive corruption that plagues law enforcement in this country. I am very interested in learning more about INM's support for such programs.

REFUGEE PROGRAM

The Communists in Cambodia and Afghanistan are making a difficult refugee situation even worse, Mr. Chairman. I am deeply concerned about the refugee program along the Thai-Cambodian border, as well as in Pakistan and Iran.

Mr. Chairman, in this difficult budget year, and hard decisions are going to have to be made in various levels for funding all three of these worthy programs. I look forward to working with you, Mr. Chairman, and with the people who will be testifying today to see if we meet that obligation.

Thank you.

Senator KASTEN. Senator, we thank you. Before we begin with Mr. Purcell's testimony, Senator Inouye, would you like to make a comment or an opening statement?

Senator INOUYE. I am just sorry I am late, sir.

Senator KASTEN. You are not late, we are just beginning.

Mr. Purcell, please proceed.

COMMITTEE ACTION ON REFUGEE PROBLEM

Mr. PURCELL. Thank you, Mr. Chairman.

Before proceeding with my statement, I would like to stress to you and the members of this committee the profound respect that we have for you and the work that you have done on refugees. This was particularly apparent this last year, when the 1986 appropriations were being considered. We were faced with one of the more severe reduc-

tions in our program in recent years. That was courageously handled by this committee, when, I believe, had those reductions been accomplished, the U.S. program would have unraveled, and with it, the international machinery which the program supports. I can tell you on behalf of the Department of State and hundreds and thousands of voluntary agency employees and international organizations, the actions of this committee are regarded as paramount in keeping this vital machinery alive.

Senator KASTEN. Thank you.

BUDGET REQUEST

Mr. PURCELL. Our 1987 budget requests $347.5 million for our refugee programs, as well as $25 million in our emergency fund. The world refugee problem, after a period of comparative calm, 1982 through 1984, worsened drastically in 1984, and that problem has continued. The reasons were the deterioration, the drought, civil strife in Africa; Vietnamese attacks along the Thai-Cambodian border.

International organizations responded this past year with what was one of the more serious refugee issues in probably more than a decade. They did an incredible job. Financial resources were strained.

For the U.S. program, we received, in 1985, regular and supplemental appropriations totaling $350 million. In addition, we used $40 million of our emergency fund to address serious needs in Africa, the Middle East, and Southeast Asia.

For 1986, after Gramm-Rudman, I have $324.5 million. Also, I have $18 million left in the emergency fund. About 25 percent of our budget is earmarked through actions of the Congress. It is my belief that 1986 requires a hard look at the worldwide refugee program, and I have launched an intensive review of all regional programs under my jurisdiction.

Given the compelling needs in Africa, which we are unable to address with these current levels of resources and the compelling needs in Southeast Asia, I, at this point, am reviewing a reorientation of our priorities in 1986 and will shortly be submitting for the consideration of the committee and the Congress a reprogramming to address those severe needs.

Our level of $347.5 million in 1987 will support the admission of 63,000 refugees into the United States. That is made up of 42,000 from East Asia, 9,000 from Eastern Europe and the Soviet Union, 6,000 from the Near East and South Asia, and 3,000 each from Africa and the Western Hemisphere.

We will also continue to provide support to the various international organizations working on refugee issues at levels commensurate with traditional U.S. funding levels and concurrent with substantive needs.

I will stop there, Mr. Chairman and entertain questions.

[The statement of Mr. Purcell follows:]

PREPARED STATEMENT OF JAMES N. PURCELL, JR.

DIRECTOR

BUREAU FOR REFUGEE PROGRAMS, DEPARTMENT OF STATE

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to present the Department of State's Migration and Refugee Assistance appropriation request for FY 1987. Accompanying me are Robert L. Funseth, Senior Deputy Assistant Secretary of the Bureau for Refugee Programs, and Rozanne Oliver, Director of the Office of Program Budget.

Mr. Chairman, the world refugee situation today continues to be one of great need. Although the news media have not focused recently on any dramatic new refugee crisis, the number of refugees who have fled strife and persecution in their home countries totals over eight million people. Many more have crossed international boundaries fleeing famine, drought, and disease.

The United States consistently has maintained that refugee assistance and the search for solutions to refugee problems are matters of international concern and responsibility. Accordingly, the United States continues to contribute to internationally sponsored programs to provide relief assistance and to promote voluntary repatriation or settlement within the region of origin.

The United States also admits for resettlement refugees who have no recourse other than third country resettlement, especially those who have close ties to the United States. Our refugee programs are dedicated to meeting humanitarian objectives and are consistent with the foreign policy goals of the United States.

In preparing our appropriation request for FY 1987, we have been ever mindful of the need for the federal government to reduce significantly its overall spending. I believe that

careful examination of our presentation will show that the amounts requested in every category are modest, but enough to support our humanitarian objectives and foreign policy goals.

The Migration and Refugee Assistance (MRA) request for FY 1987 totals about $347.5 million, an increase of $8.6 million over the FY 1986 appropriated amount and about $23 million over the funds available in FY 1986 after the reductions mandated by the Balanced Budget and Emergency Deficit Control Act of 1985. However, this level of proposed funding compares to actual spending in FY 1985 of about $350 million.

In addition, we are requesting a $25 million replenishment of the Emergency Refugee and Migration Assistance account, which is permanently authorized at $50 million but which now includes appropriated funds of only about $18 million. This replenishment is needed if the emergency fund is to be capable of fulfilling its purpose -- that is, providing the President the flexibility to fund responsive U.S. action to address urgent and unforeseen refugee emergencies which may arise at any time.

The Migration and Refugee Affairs account is divided into four categories of expenditures: (1) Refugee Admissions to the United States, (2) Refugee Assistance overseas, (3) Other Assistance activities, and (4) Administrative Expenses.

My discussion of these four categories compares the amounts requested for FY 1987 with both the appropriated FY 1986 amounts and the funds now available. The current distribution of FY 1986 funds available after the Gramm-Rudman-Hollings cuts do not reflect the Department's final assessment of priority needs. Rather, the distribution is in line with legal requirements regarding how the Department could spread the overall cut. We therefore expect to seek to reprogram FY 1986 money among the four categories in the third quarter when assessments of refugee needs for the year have been further refined.

For Refugee Admissions to the United States, we are

requesting $109.1 million, about 30 percent of our total request and a decrease of $13 million from the FY 1986 appropriated amount and of about $5.5 million from the revised level. These funds will cover the operating expenses at modest levels of programs administered by the Department that support our overall admissions program. These programs include processing, transportation loans, language training and orientation, and initial reception and placement.

The budgeted admissions level for FY 1987 is 63,000, including 42,000 from East Asia. As you will recall, Secretary Shultz last October appointed a high level advisory panel headed by former Governor Ray of Iowa to look into the Indochinese refugee situation and to make recommendations for U.S. policy in the region. We expect the panel to complete its report in April.

The request for Refugee Assistance programs overseas totals $195 million, about 56 percent of the total request, and is an increase of $8.3 million over the FY 1986 appropriation and of $14.5 million over the revised level. This level of funding will provide adequate support, based on U.S. assessment of our fair share, to the core program costs of the international organizations and other agencies that carry out relief and resettlement programs overseas. The increase reflects increases in program costs due to inflation and growth in recipient populations.

Of this amount for overseas assistance, $29.4 million is requested for assistance to Indochinese refugees in Southeast Asia. These funds primarily will support the work of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Border Relief Operation (UNBRO), the International Committee of the Red Cross (ICRC), and other agencies that provide care and maintenance services to refugees in first asylum and the 250,000 Cambodian displaced persons (as of February, 1986) who remain in camps along the Thai-Cambodian border. Besides these programs, $1.75 million for anti-piracy programs in the Gulf of Thailand and $600,000 for the UNHCR Orderly Departure Program are also included.

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The overseas assistance request also includes about $60.5 million for assistance programs in Africa. This amount will be used to support the core programs for material assistance, medical and educational aid, and protection activities of the UNHCR and the ICRC in Africa, as well as special projects such as refugee scholarships and self-help activities. The immense need to help the refugees in Africa is well-known to us all.

The request for Near East and South Asia assistance programs totals $87.5 million. Of this, $67 million is budgeted for the provision of basic health and education programs to Palestine refugees through the U.S. contribution to the United Nation Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). The other $20.5 million comprises U.S. contributions to the core assistance programs for the world's largest single refugee population, the Afghans in Pakistan, administered by the UNHCR and the ICRC.

The final part of the overseas assistance category includes $17.7 million for relief assistance programs and limited repatriation activities in Latin America administered by the UNHCR, the ICRC, and other agencies. This is in response to the continued high level of refugee needs in this region.

The third category, Other Assistance, is budgeted at $34.9 million in our FY 1987 request, an increase of $12.9 million from FY 1986 appropriations and $13.4 million from the revised level. The largest part of this request is a $25 million contribution to the United Israel Appeal for its program of assistance to refugees resettling in Israel, $12.5 million more than the appropriated FY 1986 amount. This amount is earmarked for this purpose in the Foreign Relations Authorization Act for FY 1987. The remainder includes funding of the administrative and operational budgets of the Intergovernmental Committee for Migration (ICM), and the U.S. contribution to the ordinary (headquarters and non-regional) budget of ICRC.

And finally, we request $8.5 million for the Administrative Expenses of the Department of State Bureau for Refugee

Programs, an increase of $370,000 from the FY 1986 appropriations and $700,000 from the revised level. Most of this increase is attributable to price increases, although within this amount the Department also will fund one new position, a second Refugee Officer in Islamabad. This officer will oversee relief programs for approximately 2.7 million Afghan refugees, with special emphasis on monitoring the use of our contributions to UNHCR and voluntary agencies.

In closing, Mr. Chairman, I would like to express my personal appreciation and the appreciation of the Department of State for the support you and other members of this Committee have shown toward refugee affairs. The needs are great, but I am confident that by working together we will be able to continue to provide adequate levels of support for these vital, humanitarian programs.

INDO-CHINESE REFUGEE PANEL REPORT

Senator KASTEN. Mr. Purcell, the committee has just, in the last several days, received the report of the Indo-Chinese Refugee Panel chaired by Governor Robert Ray.

We have not had a chance to go over that report in any detail, but perhaps you have, and I am sure that some of your people were working on this report with the panel. I want to use this opportunity to get your general impressions of that report and its recommendations.

I will address the questions to you, but you might want to use some of the people who are accompanying you in the process of responding to some of the questions.

This is an important report, I think; I would be interested in at least your initial reactions.

Mr. PURCELL. It was apparent, Mr. Chairman, this past year that we are at a crossroads in Southeast Asia. Ten years ago, when this problem was on the TV every night and in the newspaper, we had a lot of interest and support. Many governments were working on it. That support is waning. I think it is serious.

Our work in Southeast Asia is not completed. I appear before some 14 committees in the Congress, and there are varying views as to what U.S. policy ought to be in Southeast Asia.

In order to provide a fresh look-see, the Secretary of State commissioned a panel this past year chaired by Governor Robert Ray, former Governor of Iowa, and four other distinguished Americans. They spent the last 4 months looking at Indo-China.

They have issued a report calling for renewed attention to the issues of Southeast Asia, looking at a dual-track immigration and refugee issue in the future and additional support on the Thai-Cambodian border.

They are calling for renewed attention at the international level with all governments.

I think it is a very good report. I think it addresses the serious issues that this country is going to have to face in the coming years in Indo-China.

It is my hope that this report can be used to energize a dialogue throughout this country on what the American role in Indo-Chinese refugee matters should be. It is my hope that the committees of Congress will take it seriously, will question the panel.

I know this report has been long awaited in the private sector and the international organizations. I am hopeful that it will start a dialog and that we can renew our interest and our support in Southeast Asia. I am very encouraged. I think it is a good report, and I commend it. I think I sent copies to the members of this committee. It was only just presented to the Secretary.

Senator KASTEN. We got them late last week; Friday, I believe.

Mr. PURCELL. I commend the issues. It calls for some foresight on the part of the United States and the international community until such time as this issue is promptly and properly addressed. I am very hopeful that it will accomplish the objectives we set out for it.

MIGRATION AND REFUGEE ASSISTANCE REQUEST

Senator KASTEN. Your overall request for migration and refugee assistance, while over what was available in the current fiscal year, is only about $9 million over what was appropriated last year. I know that it is often difficult to determine what kinds of problems and emergencies you are going to be faced with, but how does your budget relate to the refugee needs as you currently see them?

I am assuming you are going to tell me that the needs are greater. And, therefore, my question would also be what, in the face of limited resources, are some of the things that we ought to pay special attention to? I know that is hard to do, but I would like to just get a sense of priorities.

AFRICAN REFUGEE PROBLEM

Mr. PURCELL. I think for a growing refugee population that now exceeds 10 million and is growing almost exponentially, that the resources we have requested for 1987 are an absolute minimum. I think we can look forward to a continuation of severe refugee impacts and dislocations in Africa.

I think it is time that the international community face up to the infrastructural impacts that large, long-staying refugee populations are having in Africa, and I am hopeful that we can begin to address projects that are infrastructural and development related in that particular continent.

SOUTHEAST ASIA AND THE MIDDLE EAST

I think we have got to continue to focus, as I mentioned, on Southeast Asia. We have there remaining a population of some 170,000. We are seeing continued arrivals into first asylum countries.

We must maintain a balanced program in Southeast Asia that looks at all forms of durable solutions. Included in that would include respectable resettlement programs.

I think we also are going to have to focus on the fact that there are 5 million refugees in the Middle East. There are 2 million Palestinians and 3 million Afghans. That Afghan population is continuing to grow.

I know that sometimes it is unpopular to talk about the Palestinian issues, but we have got 2 million people that deserve and need our support while the efforts toward a peaceful resolution of that issue at least continues. I think we should continue to be on the lookout and responsive to refugee flows from Eastern Europe, particularly in the Soviet Union.

We are hopeful that we can see a renewal of the immigration of Soviet Jews and other religious dissidents out of the region.

But we are looking, and we will have to look, in my view, at all forms of durable solutions. We are going to have to look at solving refugee problems; trying to make it possible for refugees, in certain countries, to repatriate in peaceful conditions, to forge regional solutions to refugee problems and to maintain a reasonable U.S. resettlement program to the United States.

I don't think that needs to be gigantic, but it needs to be predictable, and it needs to be immediate.

Senator KASTEN. We are pleased to be joined by the chairman of the full Appropriations Committee, and I would like to ask Senator Hatfield, the chairman of the committee, if he would like to make a statement or ask questions at this time.

STATEMENT OF CHAIRMAN HATFIELD

Senator HATFIELD. Thank you, Mr. Chairman.

I am grateful for the opportunity to greet these distinguished people and welcome them to our committee. I have a number of questions I would like to submit for the record and have you respond, if you will, please.

Mr. Purcell, I want to congratulate you, first, on finally processing the land for Vietnamese site 2. I know this has been a very difficult task, and we have been happy to give you full support on that. I think we have got 36 of our colleagues to join in that effort.

I understand that you won't be long in this assignment. Hopefully, there is great advancement in the future. I want to say that I share in the pride of your accomplishments in this difficult role.

REFUGEE PROBLEM IN SOUTHEAST ASIA

Let me get to the bottom line of my concern, and that is, how we are going to process 32,000 persons, which is the limit or the ceiling on first asylum camps for 1987? How much of that will be carryover? Are we going to get back into our same basic routine that we have had before?

When you deduct the expected carryover, how are you going to achieve any significant program processing in building up to that 32,000 ceiling, which is reduced from the current level?

Mr. PURCELL. Senator, we have been doing a lot of serious policy thinking about Southeast Asia. We have had a distinguished panel appointed by the Secretary of State who has just issued a report. We have had an on-going meeting of the major resettlement governments, the United States, Canada, Australia, in addition to the Japanese and the UNHCR, trying to look at comprehensive, durable, solution planning in the region.

We hope, in the next few months, to meet with the new U.N. High Commissioner to engage him seriously in looking at durable solutions in the region.

RESETTLEMENT PROGRAM

Part of durable solutions will be a continued resettlement program. I think the Ray panel has addressed an issue that I think we will have to address in 1987: That is, the fact that we have significant, long-staying populations in the region. In order to ever have a serious chance at involving the first asylum governments in durable solution planning, we are going to have to finally address the issue of long-stayers. This is a population that is scattered throughout the region.

It is my belief that we will have to address, hopefully, the U.S. resettlement program in connection with the French, the Canadians and the Australians, but we hope to be able to look at voluntary repatriation, where that is possible; regional settlements, where that is possible; and third country resettlement, where that is necessary.

PROCESSING PROGRAM

My estimations are that at the end of this current year, we will have 21,000 people in the pipeline; they will carry over into 1987. I am budgeted now to process and have a total U.S. offtake in 1987 of some 29,790. It would be my view that we would then continue a carryover into the next fiscal year.

But that processing program, which we will be devising here in the United States as a reaction to the Ray panel and our consultation with other governments, will have to look at current policies on processing priorities, and we will, I think, have to look at continuing what we are doing, and we are going to have to address the long-staying.

These are what are called the P–6 priority people. We stopped considering them for the U.S. program May 1, 1982. Many of them have been there for long periods of time. I think we will have to address them. We still have 170,000 people in the region. It is my view that we

can engage all forms of durable solutions but that the resettlement program will have to continue at a respectable level in order to make that comprehensive program work.

Senator HATFIELD. A "respectable level" is the thing that jumps out at me, because, as I understand your figure, if you have a 21,000 carryover and you are anticipating that that is in the pipeline, and you will have a 29,700 ceiling, it seems to me then you are dealing with the reality of a processing figure of about 8,000 for fiscal year 1987.

Mr. PURCELL. No, sir; we will accommodate those in the pipeline, the 21,000.

Senator HATFIELD. But they were processed.

Mr. PURCELL. They were approved in 1987.

Senator HATFIELD. And accepted.

Mr. PURCELL. In addition to that, we will consider an offtake of new folks of about 29,000 out of Southeast Asia in 1987.

Senator HATFIELD. You will process 29,000 in fiscal year 1987.

Mr. PURCELL. That is right.

Senator HATFIELD. On a ceiling of 32,000?

Mr. PURCELL. That is right. And we will have a shortened, a lesser carryover at the end of 1987.

Senator HATFIELD. Yes; because your ceiling has dropped.

Mr. PURCELL. That is right. As you know, that carryover at the end of the year is flexible. At this point, my budget will accommodate that level of processing, and I think it is a reasonable figure for the United States in connection with what the other governments are willing to do.

FLEXIBILITY OF CUTOFF DATE

Senator HATFIELD. What I would like to say, though, briefly is that again, it seems to me that we are locked out of an effective program and prevented from conducting an effective program by certain factors. One is a date, a cutoff date. I would like to know how totally inflexible that is. Maybe we can write into your budget a modification of that date, if it is necessary, in order to achieve an effective program.

Second, it seems like if we want to divide just two camps. Let's take site 2; 120,000 is an estimated figure. It seems to me that in that particular case, we could pick up or we ought to be able to pick up 5,000 on humanitarian, a special humanitarian case-by-case basis.

Then let's take that camp within Thailand of 20,000, and let's take the program of what we would call the Food Cardholders. It seems to me that in that U.N. camp, we ought to be able to pick up another 43. I am just using these figures as target figures to bring us up to a level whereby at least the committee feels like we are funding for a current level of accomplishment rather than having to reach that level by the constant carryovers from the year before upon which that was funded.

Why couldn't we, or what are the obstacles to achieving that particular kind of target?

Mr. PURCELL. We could certainly, Senator, set up a system that says from October through March, we will process in the region and stop

processing after March, because it is about a 6-month period when people are in the RPC's. Anybody that enters after April will be counted against the next fiscal year's period.

In my way of thinking, that would be a totally ineffective and inefficient use of our resources. It would require us in the field and in the voluntary agencies here to gear up and down for a caseload for people who are already straining for enough money to keep the operations afloat.

It is my belief that we are talking about a ceiling of 32,000. We are talking about processing of about 30,000. We have tried to reach a balance in the program which promotes, I frankly believe, the most cost beneficial use of our resources in the field; our resources here in this country with regard to resettlement, and it promotes a reasonably balanced figure by month throughout the United States of refugees entering this country going into the resettlement stream.

The voluntary agencies have told me the one thing that promotes bad resettlement is bunching refugees all in 1 or 2 months; that if we can even those out in a 12-month period of the year, they can have some predictability and the incoming flow, that it promotes better resettlement. They are able to arrange better sponsorships.

So I think we are achieving what you are asking. We are saying that we will process; we will move out of Southeast Asia about 30,000 new people in 1987 against an overall admissions ceiling of 32,000.

Senator HATFIELD. By "moving them out," do you mean physically or just through the process?

Mr. PURCELL. We will move them out physically out of Southeast Asia. Obviously, some of the 32,000 admission will be people who are in the pipeline and others who are processed throughout the year. I think what you will see is this is a continuum that carries from one year to the next, and it promotes, I think, a cost beneficial use of our resources.

1988 CARRYOVER

Senator HATFIELD. Would you predict that you would have the same carryover in 1988 that you had in 1987?

Mr. PURCELL. If I were there, I would like to see that carryover lessened. I would like to see this going toward a more current program.

Senator HATFIELD. Otherwise, the processing is really being cut.

Mr. PURCELL. That is right. My objective is to see the pipeline continue to diminish as we go, but in a way that maximizes the use of our resources.

Senator HATFIELD. I don't want to impose upon the patience and the will of my colleagues. I will not pursue this at this moment except through some written requests that will come back to this question. I will give you an opportunity to reflect upon it in terms of how we could achieve that additional 9,300 out of those two specific examples. I will say, I know the sympathy and the understanding of my colleagues enough to know that we will be in a position in this committee to help you over some of these arbitrary obstacles that could be modified enough to achieve those goals.

But I just want to, again, thank you for your concern over the years. Needless to say, I am going to pursue this with your successor every bit as vigorously as I pursued it with you to achieve these goals that I think the President very eloquently stated. This is one of those wonderful opportunities for me to be on the same side as the President on an issue. I seize it, and I am grateful for it. So I am going to pursue it with great gusto.

Thank you very much, Mr. Chairman.

Senator KASTEN. Senator Inouye?

CAMBODIAN REFUGEES

Senator INOUYE. Thank you very much. I thank you for this learned discussion between you, Mr. Chairman, and Mr. Purcell. I have a few questions I would like to submit in that category on the Cambodian refugees. In reading your report, you have cited four categories of spending in refugee assistance, other refugee programs and administrative expenses.

Then you indicated that you may have to reprogram some of the funds from these categories. Now, what categories are you going to be reprogramming from?

FUNDING TO AFRICA

Mr. PURCELL. Let me tell you what, first, I see as the needs that require additional funding. I will give you, for instance, Africa. In 1985, given the crisis with refugees in drought, from our refugee program, we contributed about $91 million toward a total in the international program of some $288 million. That was about 31.8 percent.

Given the current level of resources that I have post Gramm-Rudman in 1986, I am looking at a refugee program, internationally, of about $261 million. I have at this point about $56 million to apply to that project. That is 21 percent. It is my belief that unless the United States can approach this proportionate level of contributions from last year, then we are going to see the needs of upward of 3 million people not be met.

I think it is critical that we reprogram additional funding into Africa.

Senator INOUYE. Where would it come from?

Mr. PURCELL. I think the way my program is now earmarked, it can only come from one of four areas. It can come from Southeast Asia maintenance, which also needs additional funding. It can come from the northeast, where there are 5 million refugees. It can come from Latin America, or it can come from my U.S. submissions program.

The way the budget is presently earmarked, those are the only four areas that it can come from. I need additional funding in Southeast Asia to reach our traditional levels. I think that is to maintain first asylum. I need additional funding in Africa, and I will be proposing also a reprogramming to cover the item that was included in the report of this committee to the Western Hemisphere migration project. That only leaves me the very painful choice of looking at Latin America, the Canaries, or United States submissions. Those are the only choices that I have.

My own view now is we will reduce our initial budget slightly in the Near East. Pakistan, I think we can afford that. I will reduce them slightly from our initial request in Latin America, and I will reduce Near East submissions. I have no other choice. Our budget is a number of earmarks, categories and our flexibility is restrictive.

OTHER ASSISTANCE ACTIVITIES

Senator INOUYE. What do you mean by other assistance activities?

Mr. PURCELL. We have two categories of overseas assistance. One is regional category of other assistance, which includes our support to international organizations that are not regionally specific like the International Committee for Migration; like our assessed contribution to the International Committee of the Red Cross and our contribution to the United Israel Appeal to assist that country in resettlement of Jewish refugees to Israel.

I might mention that the UIA program is earmarked in 1986 and 1987. For the ICRC, there was an amendment passed in our authorization bill this past year that will say, as a matter of policy, that we should contribute upward of 20 percent of the ordinary budget of the ICRC. I have had my lawyers look at it. They tell me it is not mandatory. It is a statement of desirability. If I had to honor that request, I would have to look at perhaps another $10 million.

UNITED ISRAEL APPEAL FUND

Senator INOUYE. The United Israel Appeal fund. What is the present trend of refugees?

Mr. PURCELL. I will tell you, sir, that we had, in 1985, substantial entries of refugees going into Israel, primarily out of Africa, a very special program that we were pleased to be able to participate in.

Let me give you 3 years, 1983, 1984, and 1985. Total immigration to Israel in 1983 was 16,500; in 1984, it went up to 21,465; in 1985, 11,305.

Of that component, refugees were 558 in 1983, 11,490 in 1984, and back to 4,000 in 1985. We are seeing very restricted outflows of Jewish refugees from the Soviet Union. It is pitifully small. We are continuing to see small numbers out of Romania and other Eastern Bloc countries at reasonably small levels.

We are continuing to see small flows of Jews out of Iran. The big area, I think, of potential growth is, again, in Africa, and that is a very special and sensitive program.

Senator INOUYE. So the trend is downward?

Mr. PURCELL. The trend is down, right.

Senator INOUYE. But the amount you request is the same?

ETHIOPIAN JEWS

Mr. PURCELL. The amount requested is the same. I think primarily, you have to recognize that in Israel now, they have 15,000 Ethiopian Jews. That is probably the most difficult group that they have ever had

to resettle. Congress has been very supportive in their efforts to rescue this beleaguered population. They estimate they will have to keep these Ethiopian Jews in absorption centers and in training for upward of 15 months.

It is a very expensive operation but one which I think they conduct with a great deal of compassion and efficiency.

PALESTINIAN REFUGEES

Senator INOUYE. How many Palestinian refugees receive assistance from the U.N. Relief Agency?

Mr. PURCELL. There are presently, in the Near East, upward of 2,107,000 registered refugees in the Near East. There are 61 refugee camps that are run by the host governments; that is, Jordan, Syria, Lebanon, the West Bank, and Gaza. About 2 million or one-third of them are in these post-government camps and they run about 637 schools, about 350,000 students.

The performance of those students is astronomical. They run eight training centers with about 4,500 training places. I have 98 health centers scattered throughout the region, where they provide up to 4½ million patient visits annually.

UNRWA stopped giving basic relief in 1982. They cut out something called Basic Rations Program, since most of the people were already self sufficient. They now provide those only to the destitute and to the schools. About 106,000 people received limited rations in 1985, and they think that most of the problems in the West Bank and Lebanon, that figure will probably go up to about 118,000 this year.

CONTRIBUTORS TO UNRWA

Senator INOUYE. Which country is the largest contributor to UNRWA, and what is the amount?

Mr. PURCELL. The United States, unquestionably, is the largest contributor to UNRWA. Against a budget of about $194 million, we estimate in 1986, we will be giving $67 million.

Senator INOUYE. What two countries are the next largest?

Mr. PURCELL. The E.C. and Japan.

Senator INOUYE. You have visited some of these UNRWA camps. Are the residents there informed of our involvement? Do they appreciate it?

Mr. PURCELL. I think, on total, they are aware that UNRWA is the viable, recognized symbol for them and that UNRWA would not exist were it not for the United States.

Senator INOUYE. Are people aware of that?

Mr. PURCELL. I think they are.

AFGHAN REFUGEE POPULATION IN PAKISTAN

Senator INOUYE. Your East and South Asia assistance programs total $87.5 million. Of this, $67 million is budgeted for UNRWA, while only $20.5 million is budgeted for the world's largest single refugee population of Afghans in Pakistan. I am quoting here. How is it that more

goes to UNRWA than goes to support Afghan refugees, when they outnumber the Palestinians?

Mr. PURCELL. I think you have to look at the nature of the problems. UNRWA is supported, perhaps predominantly, by about 10 governments, and I think the President of the United States is determined that to support that agency while peace talks are in progress is a high priority, and we have historically been a major contributor to UNRWA.

On the Afghan side, that is sponsored primarily by the U.N. High Commission on Refugees. That program is sponsored by many, many governments. We contributed to approximately 30 percent of the U.N. High Commission's program, in addition to which food contributions that are budgeted through the Food for Peace Program are in addition to ours.

We have operated at a level of between 40 and 50 percent of the food contribution. Since 1980—I have a report. If you would like, I could submit it to your staff, it shows total U.S. contributions for refugees in food—we have contributed some $430 million to support the Afghan population in Pakistan.

Senator INOUYE. May I have that report to be made part of the record?

Senator KASTEN. Without objection, so ordered. It will be included in the record.

[The material follows:]

DONOR PLEDGES

WFP PROGRAM FOR AFGHANS IN PAKISTAN
(All Figures in Metric Tons)

WHEAT

Donors	1980	1981	1982	1983	1984	1985	1986	TOTAL
Australia	- 10,000*	10,000 22,875*	10,000 -	- 25,000*	25,000 -	20,000 -	20,000 5,000*	85,000 62,875
Belgium	- -	- -	- 2,000*	- 2,994*	- 1,640*	- -	- -	- 6,634*
Canada	- -	22,533 16,425*	- 28,850*	- 57,915*	- 33,060*	- 36,026*	- 36,000	22,533 208,276*
EEC	- 12,000*	5,000 15,000*	24,696 30,000*	- 65,446*	- 40,200*	- 34,300*	- 45,000*	29,696 241,946*
France	5,000 -	7,000 9,000*	9,500 16,500*	5,000 15,000*	10,000 5,000*	10,000 5,000*	12,000 5,000*	58,500 55,500*
FRG	- 7,500*	24,044 16,101*	- 15,650*	- 27,069*	- 25,500*	- 21,635*	- 30,000	24,044 143,455*
Italy	- -	- -	- -	- -	- -	- 3,000*	3,000 -	3,000 3,000*
Japan	- 4,380*	- 35,000*	- 40,850*	- 52,819*	- 44,060*	- 74,000*	50,000	301,109*
Kuwait	- 1,084*	- -	- -	- -	- -	- -	- -	- 1,084*
Norway	- -	- -	- -	- -	- -	- -	- -	-
OPEC	- -	16,000 -	- -	- -	- -	- -	- -	16,000 -
PRC							5,000	5,000
Switzerland	- -	950 -	- -	- -	- -	- -	10,000 -	10,950 -
Turkey	- 3,828*	- -	- -	- -	- -	- -	- -	- 3,828*
UK	- -	- -	- 14,650*	- 7,877*	- 8,500*	- -	- -	- 31,027*
USA	98,036 -	161,960 -	136,317 -	180,000 -	149,542 -	150,000 -	160,000 -	1,035,355 -
TOTAL	141,828	361,388	329,013	439,120	342,502	353,961	381,000	2,348,812

*Indicates bilateral contribution through WFP
All other figures are for contributions to WFP Program

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U.S. GOVERNMENT CONTRIBUTIONS TO AFGHAN RELIEF PROGRAM

(Dollars in Millions)

Organization	FY 1980 Obligations	FY 1981 Obligations	FY 1982 Obligations	FY 1983 Obligations	FY 1984 Obligations	FY 1985 Obligations	FY 1986 Obligations	FY 1987 Pledges to Date	TOTAL
UNHCR	5. 3.8*	30. 2.6*	24.2 3.*	23. 3.5*	20.1 3.8*&**	19.7 3.3*&**	15.17 3.8*		137.1 23.8*
WFP***	31.9 -0-	39.3 -0-	70.6 -0-	37.3 -0-	42.2 -0-	40. .2*	25.28****	23.5	310 .2*
ICRC	.3	1. -0-	.7 .3*	1. .5*	1.5 .8*	1.9 .8*	1. .775*		7.4 3.1*
LICROSS	-0- 1.*	-0- 1.*	-0- 1.*	-0- 1.*	-0- 1.*	-0- .8*	.700*		-0- 6.5*
American Volags									
CRS	-0- -0-	.2 .6*	-0- -0-	.3 .-0-	-0- -0-	.4 .1*	.377		1.2 .7*
CWS	-0- -0-	.5 .3*	.4 -0-	.4 -0-	.5 -0-	.6 .2*	.216 .412		2.6 .9*
IRC	-0- -0-	-0- .3*	.7 -0-	-0- -0-	.3 -0-	.3 .2*	.532 .313		1.8 .8*
SA	-0- -0-	.2 -0-	-0- -0-	.5 -0-	.4 -0-	.5 -0--	.753		2.3 -0-
SCF	-	-	-	-	-	-	.051		.05
AMERICARES	-	-	-	-	-	-	.121		.12
(VOLAG Subtotal)	(-0-)	(2.1)	(1.1)	(1.1)	(1.1)	(2.3)	(2.8)		(10.5)
Government of Pakistan	0-	8.	-0-	-0-	.3	-0-	-		8.3
TOTAL	42.	84.	101.	67.4	70.7	69.5	49.50	23.5	506.8*

*Non-appropriated excess foreign currency (Pakistan rupee) contribution. FY 1986 exchange rate equaled 15.92 rupees per dollar.
**Includes FY 1984 $800,000 and FY 1985 $1 million rupee equivalent for World Bank projects to redress environmental damage and to provide work for refugees.
***PL-480, Title II excess food commodities (wheat, vegetable oil, dried milk) provided through World Food Program. Includes value of commodities and shipping.
****Decline in value of contribution attributable to fall in wheat prices.
CRS=Catholic Relief Services; CWS=Church World Service; IRC=International Rescue Committee; SA=Salvation Army. SCF = Save The Children Federation (U.S.)

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Senator INOUYE. If I may, at this juncture, I would like to submit questions for responses later.

Thank you very much, Mr. Purcell.

U.S. ROLE IN UNRWA

Senator KASTEN. Senator D'Amato, do you have any questions at this time?

Senator D'AMATO. Mr. Chairman, if I might, I would like to pursue something that the distinguished Ranking Member, Senator Inouye, brought up.

Mr. Purcell, you indicated, when Senator Inouye asked a question about UNRWA of whether or not the recipients of these services were aware that the United States played such a key role, that you felt that they did.

Let me ask you, how do they get that knowledge, by way of the fact that we are part of the U.N. and that we contribute? Is that how you believe they get that information?

Mr. PURCELL. Well, I think it is clear, if you look at the documentation that is available throughout the region, newspapers, visitors, whatnot, that it is no big secret that the United States is a major contributor of UNRWA and has been historically.

U.S. CONTRIBUTIONS TO UNRWA

Senator D'AMATO. If I might, basically, you said is no big secret. I think it is a big secret, and I would like to know, other than the bureaucrats who are running the program, how does the average person, Palestinian refugee or others, know that the United States is providing $67 million out of the total of $190-plus million? How do they know that? I mean, do we have it in every classroom that one-third of this comes from the United States? Do we have it in the distribution centers? Do we have it somewhere?

I would like to know that.

Mr. PURCELL. We do not have it posted in the distribution centers or the classrooms that this is funded, about a third, by the United States. There are approximately 10,000 school teachers in UNRWA. I think they are very clear. They react to some 350,000 students annually.

Senator D'AMATO. Let's talk about the 10,000 teachers. Where do they come from?

Mr. PURCELL. They are recruited generally from the region.

Senator D'AMATO. From the region?

Mr. PURCELL. That is right.

Senator D'AMATO. Many of them are Palestinians?

Mr. PURCELL. Many of them are Palestinians.

Senator D'AMATO. You are telling me that 10,000 teachers know that the United States pays $67 million and they tell the children that?

Mr. PURCELL. I could not honestly tell you that.

STORAGE FACILITY IN FARIMATH

Senator D'AMATO. I think the point is, and at least I, at any point, am not attempting to speak for Senator Inouye. He certainly opened up a line. He may speak for me. I am not going to speak for him. But I see our own AID programs in Farimath, for example, where we built a storage facility, and I have seen particular signs that this was built as a part of the people's revolution. They didn't know it was built with U.S. money.

I would suggest that nobody knows, and that the few people who do know aren't going to go out of their way to tell recipients that the United States has been contributing on a humanitarian basis and that we are very much a part and parcel of caring about these people and their tragic plight, and I would say this is rather disquieting. But we have never done anything to change that. Do you think we should?

Mr. PURCELL. I think certainly, the U.S. support for UNRWA is no big secret. It is something that we can take some pride in. We certainly would have no objection to noting the efficiencies in that program.

Senator D'AMATO. Let me ask you, if we were to withdraw support, do you think they would know that?

Mr. PURCELL. I think they all know of U.S. support. In fact, in the last 3 years, we have deleted members of UNRWA. At one point, we were deciding whether to close schools in Syria and Jordan.

Senator D'AMATO. Oh, I would close the schools in Syria tomorrow. [Laughter.]

SAUDI ARABIA CONTRIBUTION TO UNRWA

Senator D'AMATO. My distinguished colleague posed a question, Senator Inouye: How much money does Saudi Arabia contribute to UNRWA?

Mr. PURCELL. The Arab countries in 1985 contributed some $4 million.

Senator D'AMATO. $4 million, Saudi Arabia?

Mr. PURCELL. $2.2 million.

Senator D'AMATO. $2.2 million? You know, there is a way; some countries don't think they are directed to a project, and then it is identified X, Y, X country was responsible for this school building; such-and-such is responsible for this. Do you think that would be a much more effective way? Then if they wanted to burn the school down because the Americans paid for it, that is fine; we won't have to pay for it anymore.

But what do you think about that?

Mr. PURCELL. I think were we to go on a project-by-project basis, there have been suggestions of that kind next year, I could see the cost of this operation skyrocketing. I think we are seeing right now student-teacher ratios that are unbelievable in the UNRWA schools. We are seeing, whereas a per patient visit in Jordan will cost you $42, in UNRWA, it is $4.70. I think to try to duplicate, break up what UNRWA does and divide it over a number of projects would simply make the cost prohibitive.

PROJECTS IN SYRIA

Senator D'AMATO. I have taken far too much time, but let me ask you this. I had no idea we were running our projects in Syria. I remember when I first came here the State Department got terribly upset with me.

I again went to the length of contacting my hometown newspaper through a friend of mine, who was a former Congressman, Ed Winger, and he told them how I was rocking the diplomatic boat because we wanted to cut off money. I think $269 million was in the pipeline. Do you remember, Mr. Chairman, going to Syria? I was told how we had to do this; how we had to hold them. Eventually, they saved about $180 million. We really have a school in Syria? How many schools do we have in Syria?

Mr. PURCELL. I don't have the breakout here. I will provide that for the record. I do have the amount of money UNRWA provided.

Senator D'AMATO. How much?

Mr. PURCELL. For education, it is $18 million; health, $4.3 million; relief services, $1.1 million. That is a total of $22 million of UNRWA's budget that is provided.

Senator D'AMATO. Well, Mr. Chairman, there is $23 million that we can identify that you can use when we are talking about cutting back on other programs, because that is a great target, $23 million.

Mr. PURCELL. That is of the total UNRWA budget. We contribute about a third.

Senator D'AMATO. Oh, a third?

Mr. PURCELL. Of their total of $194 million, we contributed about a third.

Senator D'AMATO. I am wondering; Syria, where else?

Mr. PURCELL. Jordan, Syria, Lebanon, the West Bank, and Gaza. Those are the five geographical locations where we provide UNRWA support.

Senator D'AMATO. Is there an effort by UNRWA to assimilate these refugees into countries, or do they just keep them on line?

Mr. PURCELL. UNRWA doesn't keep refugees on line. I think there is a misperception that UNRWA is responsible for running camps and providing for basic care and maintenance. UNRWA provides education and health. It also provides a limited ration program for about 100,000 indigents in that population.

But certainly, many years ago, it was decided that the best way to try to achieve some reasonable degree of self-sufficiency was through education and to meet minimal health needs of the UNRWA population. UNRWA is not responsible for existing international mandates for caring for refugees. But they are basically self-sufficient in the economy.

NUMBER OF GENERATIONS UNDER UNRWA AID

Senator KASTEN. May I just interrupt? Related to the question he just asked, how many of these recipients now of UNRWA aid, particularly education, are in their second or I would even say the third generation?

A significant number of these, the point he is making, is that essentially, we are establishing not a true refugee population as you have in many of your other programs, but almost a permanent population.

How many are we educating that are now in their third generation?

Mr. PURCELL. I would estimate that, assuming UNRWA was established in 1948, that we are seeing a fair number who are second, third generation. I think it is important to recognize in the U.N. scheme of things for refugees, UNRWA has a mandate that applies to geographic locations in the UNHCR for the rest of the world.

The United Nations, in its wisdom, has provided UNRWA with a mandate of education, health and minimal relief. It has not provided UNRWA with a mandate to provide legal or physical protection, or solutions as it has the UNHCR. I think they have recognized a solution to the Palestinian problem as a political issue. UNRWA is designated to provide basic support until that political issue is resolved.

Senator KASTEN. I didn't mean to interrupt. I just wanted to make that point.

Senator D'AMATO. Mr. Chairman, you did it well, and I think that really goes to the nub of the question that we are never really going to see any kind of solution when you talk about second or third generation. We will have their 10th generations, and we will be providing the funds, and I have to suggest to you that to provide those funds to some of those areas, I absolutely don't think is something that the American people will be supportive of, nor should we be supporting with our taxpayer dollars. I think it is unconscionable.

I am not saying to you that all the effort should be abandoned, but certainly, some of those, it would appear to me the dollars could be better used, and I thank the chairman for permitting me to raise those questions.

Mr. Chairman, I have another question I would like to be answered for the record.

Senator KASTEN. Without objection, so ordered.

SITUATION IN HAITI

I just have one quick question, and then I want to proceed. We all know that it is probably too soon for major economic advances to have occurred in Haiti since the departure of President Duvalier. However, there is less oppression there. That has happened almost immediately, and there is also more political freedom there today than there was before.

Therefore, I would assume that the number of refugees entering the United States has also dropped, that some of that pressure is off. Is that true? How many refugees have entered the United States in the last 2 years from Haiti, and has the rate dropped? You can give me 3 years or 1 year. I want to get a sense of if there has been a relative change as a result of the change in the government.

Mr. PURCELL. It is our belief, Senator, that the basic flight out of Haiti has been duly motivated. The large pressure is severe economic

dislocation. And you will recall, in 1981, President Reagan authorized the program for the interdiction of Haitians attempting to enter the country illegally, while providing a means to those fleeing political oppression to enter the United States.

I would say that the number of Haitians attempting to enter the United States has been very, very slim. Since that is a responsibility of the Department of Justice, I will have to get those figures, and I will supply them for the record to you.

Senator KASTEN. I have got a couple of other questions here, and I just might say that I am going to ask you—I don't want you to answer it now—but to provide us with additional information about a Project Hope proposal in Costa Rica relating to Nicaraguan refugees which has come to the attention of the committee from a number of different sources.

SUBMITTED QUESTIONS

I have some other questions I would like to submit for the record. But once more, let me thank you for the work that you have done, and it has been our pleasure to work with you. We look forward to continuing to work with you in other ways and places.

We thank you very much.

Mr. PURCELL. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES

Senator Kasten: This Committee over the last several years has been quite critical of UNHCR, especially in what we saw as that organization's almost total unpreparedness with respect to refugee problems in Africa due to the drought.

The UNHCR now has new leadership, and I'm wondering if you look forward to better times with respect to that organization?

Mr. Purcell: In his first address to the Executive Committee last January, the new High Commissioner, Jean-Pierre Hocke, recognized that the capacity of UNHCR and its operational partners to intervene rapidly and efficiently in emergency situations needed to be strengthened. At that time, the High Commissioner committed himself to search for flexible and integrated solutions, and to enlist the necessary political support of the Governments to carry them out. His course would stress the complementary nature of UNHCR's protection and assistance roles. We are encouraged by his commitments and the measures for reform he has sought to implement so far.

High-Commissioner Hocke's first efforts have been focused on trying to ensure precision in the evaluation of needs, credibility in the formulation of programs, and scrupulous implementation of projects with the objective of seeking to reinforce the confidence between UNHCR and the donor community. He has stressed the need to develop plans in cooperation with the Governments concerned to meet the requirements of local populations -- especially in the least-developed areas of the world. And, he is in the midst of institutional reform and redirection to place greater emphasis on field operations. Support services (legal, programming, procurement, finance, etc.) are being adapted to better serve the needs of the field -- not those of headquarters The changes which Hocke seeks will take time to implement and even more time to provide the expected results. We believe the eventual outcome of these efforts will be more efficient and effective program delivery.

LAND VIETNAMESE

Senator Kasten: Mr. Purcell, As you know, in the report which accompanied the FY 1986 legislation, the committee expressed some concern over the landed Vietnamese refugees in camps in Thailand.

What is the current status of those refugees?

Mr. Purcell: Some 6000 land Vietnamese, that is those who arrived in Thailand after an overland exodus through Cambodia, are presently in a separate section of the Site II evacuation camp for displaced Khmer. In late 1985, they were moved to this location, which is larger than their earlier camp and more removed from the Khmer population. The International Committee of the Red Cross is responsible for their protection and relief. We anticipate that

land Vietnamese will be transferred from the Thai-Cambodian border to Phanat Nikhom in the very near future.

Since late 1985, the U.S. has processed land Vietnamese as immigrants and refugees. About 1500 have been accepted for admission as refugees. We will continue processing after the move to Phanat Nikhom has been completed.

INCREASES FOR ADMINISTRATIVE FUNDS

Senator Kasten: You are requesting a ฿700,000 increase for administrative funds in FY 1987. Your congressional presentation document states: "This increase is attributed to the 1986 reduction of ฿350,000 resulting from the sequestration of funds, price increases estimated at 4 percent and the request for one additional position in Islamabad."

Are we to assume that you want us to appropriate in FY 1987 the ฿350,000 sequestered from FY 1986? I know that cuts to administrative expenses have been hard to take -- but I am dumbfounded that you are actually asking that these funds be reinstated, and that OMB is letting you get away with it.

Mr. Purcell: Because of the tight budget schedule under which we operate, our FY 87 budget figures were finalized before the Administration knew the FY 86 sequestered levels. We projected an increase of only ฿350,000 from our FY 86 request to cover the cost of establishing a new position in Islamabad and price increases estimated at 4 percent.

When our FY 86 budget was subsequently reduced to ฿7,800,000 (the sequestered level), significant cuts had to be made in program evaluation activities and our monitoring efforts. Some of the projects that were scheduled to have been monitored in FY 86 have not been inspected by a program officer in over 18 months. These activities are indeed cost-effective since evaluation and monitoring frequently result in identification of cost-saving possibilities and ways to use our decreasing resources more effectively.

The ฿8,500,000 we are requesting in FY 87 does represent a ฿700,000 increase over the FY 86 sequestered level, but is required to provide for long overdue program evaluation and site visits, the establishment of a new position in Islamabad, mandatory FSN pay hikes, cost increases, recovery from exchange rate losses, and required funding for additional security at our overseas posts.

PROJECT HOPE PROPOSAL FOR NICARAGUAN REFUGEES

Senator Kasten: Can you tell us about the proposal that "Project Hope" is advancing in Costa Rica, which relates to Nicaraguan refugees?

Mr. Purcell: Project Hope proposed a bilateral USG - Costa Rica program, with Project Hope as the implenenting agency, to assist the Nicaraguan refugees in Costa Rica. The principal concern expressed by Project Hope was the medical condition of some of the newly arrived Nicaraguan refugees in Costa Rica. We met earlier this year with Dr. William Walsh of Project Hope to discuss this proposal for bilateral refugee assistance.

We explained to Dr. Walsh that our basic approach to refugee care and maintenance world wide is multilateral in nature, usually through the UNHCR. With so much attention being focused on Central America, we believe the multilateral approach is a particularly important principal to maintain in this area.

Based on Project Hope's concerns, a team including personnel from RP and Embassy San Jose made a physical inspection March 21-24 of four of the five refugee camps previously visited by Project Hope. The fifth camp had been rated as "good" by Project Hope.

While there are some minor medical problems in two reception camps, the basic problem is overcrowding caused by the continued influx of refugees from Nicaragua. UNHCR is working to ameliorate poor conditions by opening new camps in the interior of Costa Rica, and by focusing on the refugees' medical needs. We are in regular contact with the UNHCR to make sure that the needs of refugees in Costa Rica are being adequately met.

Refugees in Costa Rica are cared for by the UNHCR and its chief implementing partners. In Costa Rica these are the Costa Rican Red Cross, ICM and several private voluntary organizations including the International Rescue Committee. There are approximately 18,000 Nicaraguan refugees registered with UNHCR in the country -- roughly 8,000 in six camps and 10,000 urban refugees.

ICARA II

Senator Kasten: Also in last year's report, the committee suggested that we try and fund some ICARA II type projects.

Have you been able to do so?

Mr. Purcell: I regret to have to report that given the deficit-reduction budgetary climate, we have not been able to fund ICARA II-type projects in any substantial way this fiscal year (FY 1986). This fiscal year, the Bureau has funded a vocational education project for refugee youth in Kenya and in Zambia. We also plan to continue funding a fish farming project for refugees in Zambia. The balance of funds remaining in the African Refugee Resettlement Services and Facilities Project (some $10 million), which was created to program funds transferred in 1982 and 1984 from the Migration and Refugee Assistance account to the AID

International Disaster Assistance account, have now been completely allocated.

Last month the Bureau provided a comprehensive report on ICARA II, describing the ICARA II concept, the progress to date, the impact of the 1984/85 African famine, and how we see the future of the ICARA II process. Quite frankly, Congressional earmarkings combined with Gramm-Rudman-Hollings cuts have put the MRA availability for African refugee assistance below the traditional level of USG support for the requirements for life-saving and life-sustaining assistance as they are now estimated. For this reason, the Administration sees few or no prospects for funding ICARA II-type projects from the MRA Appropriation in FY 1987. However, as noted in our report, it is hoped that some very successful ongoing ICARA II-type projects in Chad and Sudan may be expanded and folded into the regular bilateral development programs in those countries. For example, the Africare reforestation/agricultural development project in Abeche that was designed to help reintegrate returned refugees from Chad's civil war was expanded in 1985 to accommodate people displaced by drought in Chad; and it holds promise for helping to reintegrate those current refugees who may return from Sudan. In Somalia, a new PVO umbrella project may fund continued and new ICARA II-type projects since many of the PVOs operating in Somalia have been very involved with refugee assistance.

NICARAGUAN MISKITO REFUGEES

Senator Kasten: You state in your justification material that there are almost 30,000 Nicaraguan refugees being assisted in Honduras and Costa Rica. Of these, some 12,600 are Miskito Indians.

I believe your material has been overtaken by events. It is my understanding that in the past few weeks, thousands more Miskito Indians have left Nicaragua. This came, according to newspaper reports, after Sandinista soldiers had dressed up as Red Cross volunteers and gone into villages, kidnapping young Miskito men to serve in the military.

First of all, are you hearing these reports?

Mr. Purcell: Yes, we have closely followed these reports. Our embassy in Tegucigalpa was in constant touch with the Government of Honduras and the UNHCR concerning this refugee flow. The FY 87 budget justification material was printed prior to the March exodus of Miskito Indian refugees to Honduras.

Senator Kasten: How many more Miskito Indians have fled Nicaragua since the first of the year? We are hearing from 3,000 to 5,000.

Mr. Purcell: Approximately 10,000 Miskito Indians fled to Honduras in March and April of this year following Sandinista incursions into two of the Indian villages. Some 7,500 of the Indians requested UNHCR assistance and were relocated to existing UNHCR settlements in the Honduran province of La Mosquitia. The number of Nicaraguan Indians being assisted by UNHCR has increased to 21,000.

RELOCATION OF GUATEMALAN REFUGEES

Senator Kasten: Has the Government of Mexico moved all of the 43,000 Guatemalan refugees away from the border by now?

Mr. Purcell: The Government of Mexico and UNHCR have relocated approximately 18,000 Guatemalan Indian refugees from the border to resettlement camps in the states of Campeche and Quintana Roo. The two settlements in Campeche house 12,000 people and the two in Quintana Roo house 6,000. The total number of refugees assisted by UNHCR has dropped to around 38,000.

Some 20,000 Guatemalan refugees remain in UNHCR camps in the border state of Chiapas. These refugees have so far refused relocation to Campeche and Quintana Roo. Most of the refugee camps remaining in Chiapas are several kilometers from the border. Since the election of President Cerezo in Guatemala, some 200 of the Indian refugees have chosen to return home. As conditions in Guatemala change, we anticipate that more of these refugees will choose to return to their homes.

ADMISSIONS OF CUBAN REFUGEES

Senator Kasten: Are any discussions on-going with the Government of Cuba toward reactivating the program of resettlement of Cuban political prisoners in the United States?

If the $3 million currently slotted for this program is not used in Fiscal Year 1986, will the Bureau attempt to reprogram these funds or will they revert to the Treasury?

Mr. Purcell: The United States Government stands fully ready to resume implementation of the Mariel Migration Agreement once Cuba agrees to accept the return of the Mariel excludables. We have communicated this position to the Cuban Government. However, at this time, Cuba refuses to implement the Agreement even though it has acknowledged that it is of benefit to both parties.

Cuba continues to link its suspension of the Mariel Migration Agreement to the Voice of America program, Radio Marti. However, the U.S. government views the two issues as separate. Radio Marti was implemented in full accordance with international broadcasting standards and pursuant to the wishes of Congress. It bears no connection to the Mariel Migration Agreement.

We will seek to reprogram all of the funds that had previously been budgeted for FY 1986 Latin American admissions into our refugee assistance budget, with the exception of sufficient funds to cover the admissions costs of approximately 250 refugees under this ceiling.

ADMISSION OF AFRICAN REFUGEES

Senator Kasten: You state in your justification material that of 2.8 million African refugees, the proposed level of 3,000 will be sufficient to provide resettlement opportunities in Fiscal Year 1987. This seems to be a very low figure, especially since you also state that Ethiopians, especially, have ties to the U.S.

First of all, how do you arrive at that figure?

Mr. Purcell: A ceiling of 3,000 is, in the Administration's estimation, sufficient to provide adequate resettlement opportunities for African refugees during FY 1987. While many Africans remain displaced by drought, famine, and civil strife in their homelands, most have been able to find adequate settlement opportunities in neighboring countries. It is our policy that voluntary repatriation to one's home coutry or resettlement within the region are solutions preferable to resettlement in the United States. We reached our ceiling of 3,000 based on past experience, the advice of UNHCR, and our best estimate of future refugee flows and the number among those who might require resettlement outside of the region.

Senator Kasten: And logistically, how do you have access to the Ethiopians who might wish to emigrate to the United States?

Mr. Purcell: Ethiopians who apply for admission to the U.S. as refugees are already outside of Ethiopia. Therefore, Ethiopian emigration policy has not been a pressing issue for the U.S. refugee admissions program.

However, we have had access problems regarding Ethiopian refugees in the Sudan. In November 1985, the Government of Sudan imposed a temporary moratorium on all refugee departures. This moratorium was lifted in March, and 100 refugees were able to depart for the United States. However, due to the recent security situation and subsequent embassy evacuation, refugee processing in the Sudan has been suspended once again. We are hopeful that when U.S. Government personnel can return safely to the Sudan, our refugee admissions program will be back on track. There are approximately 900 approved cases still awaiting departure in the Sudan.

Senator Kasten: How many Ethiopians have immigrated to the U.S.? How has the Government of Ethiopia responded to immigration by its citizens?

Mr. Purcell: We have heard rumors that the Ethiopian Government is tightening down on its emigration policy. To date, however, we have not seen concrete evidence that this is occurring. During the last 10 fiscal years, for example, 1,229 Ethiopians have been issued immigrant visas to enter the United States.

RELEASE OF POLITICAL PRISONERS THROUGH ODP

Senator Kasten: Has there been any movement at all toward an agreement between Vietnam and the United States on obtaining the release of political prisoners and their resettlement to the United States?

Mr. Purcell: Secretary Shultz publicly reiterated the U.S. initiative on prisoners in testimony before Congress last September. The U.S. pressed the issue directly to the Vietnamese at the 1985 meeting sponsored by the United Nations High Commissioner for Refugees on the Orderly Departure Program, or ODP, in Geneva in October and in a number of other face-to-face meetings relating primarily to POW/MIA issues, but Hanoi now appears to have withdrawn its offer.

We have communicated 11,183 names (in 2,280 family cases) of former prisoners and family members to the Vietnamese ODP Working Group with a request that their cases be expedited, but the response thus far has been very disappointing.

While a few former inmates have been allowed to depart Vietnam through the ODP, no current re-education camp prisoners have yet been released for departure under this program. The numbers in FY 1985 are 60 former prisoners and 207 accompanying family members; in FY 1986 through April, 93 former prisoners and 339 family members have left.

Despite these disappointing responses, the U.S. remains firmly committed to obtaining the release of these prisoners.

Questions Submitted by Senator Hatfield

CARRYOVER INTO FY 1988

Senator Hatfield: What is the projected carryover as the program enters FY 1988?

Mr. Purcell: At this time we plan to enter FY 1988 with a carryover of about 14,500 refugees in training in the Refugee Processing Centers (RPC's) of Southeast Asia. In addition there will be a few other INS-approved cases in regions of the world other than East Asia.

The carryover in the RPC's in Southeast Asia is based on an anticipated regional ceiling of 28,000 for FY 1988 and will be adjusted should this anticipated ceiling change.

Because the carryover each year is based on the anticipated ceilings of the coming year, it is adjusted downward when the ceilings are expected to decline. A carryover is necessary to ensure an even flow of refugees throughout the year and the efficient use of training facilities. The carryover into FY 1988 will be about 2,500 less than the carryover into FY 1987.

Senator Hatfield: Because the Committee appropriates on the basis of INS approvals per fiscal year, why will the carryover be less than the carryover as we enter FY 1987?

Mr. Purcell: In fact, the Department of State's Migration and Refugee Assistance request for admissions program is not based on anticipated INS approvals in a given year, but rather on actual expenditures of funds related primarily to the number of refugees to be admitted to the U.S. Most expenses, particularly transportation and reception and placement expenses, are incurred when the refugee actually travels to the United States and is resettled in an American community. We have attempted to make that clearer in this year's budget presentation.

KHMER "FOOD CARD HOLDERS" IN THAILAND

Senator Hatfield: What is being done to pressure the Thai government to open up the "food card holder" population at KID for processing?

Mr. Purcell: The Royal Thai Government is aware that we wish to interview the approximately 4,300 "family (or food) card holders" at the Khao I-Dang camp to determine their eligibility for refugee resettlement in the United States.

Senior Thai officials met with representatives of the major resettlement countries on June 13 to discuss the future of the residents of Khao I-Dang. The Thai officials outlined their plans for eventual closure of Khao I-Dang and opened the camp for third-country processing for resettlement. We will commence processing of "food card holders" in a short period of time.

IMMIGRATION FOR BORDER KHMER

Senator Hatfield: Why can the family reunification program announced by Secretary Shultz languish while the lives of the refugees are endangered in their wait along the border?

Mr. Purcell: This program has had so far a very limited application, although we have taken steps to expand it significantly. Moreover, it takes time to process each applicant. The difficulty is in obtaining documentation and verification of family relationships among these people who almost invariably escaped from Cambodia without papers. Khmer in the United States with relatives in Thailand are being advised to

obtain U.S. citizenship as soon as possible so that they can file visa petitions for them.

With the cooperation of the Thai authorities, we have located all the Khmer in the Thai border areas who have approved immigrant visa or "Visas 93" petitions on file. We are processing those at Evacuation Site II who are currently eligible to enter the United States, and we have requested access to those at Khao I-Dang and elsewhere in Thailand. The U.S. Immigration and Naturalization Service (INS) is extending humanitarian parole, on a case-by-case basis, to other dependent relatives. Qualified applicants who have approved petitions but cannot be issued visas because of world-wide oversubscription of certain visa categories, as well as certain truly exceptional cases, may also be accorded humanitarian parole.

Senator Hatfield: Why don't we use the refugee numbers for these cases, numbers which are readily available and which allow an immediate reunification of these refugees with their families?

Mr. Purcell: Neither the United States nor other resettlement countries plan to accept for resettlement as refugees many of the 240,000 "border Khmer" who have moved into Thailand since 1980. The international community and the Royal Thai Government recognize them as displaced persons and are providing them food, shelter, and other support until conditions permit their safe return to Cambodia.

Processing the border Khmer for resettlement as refugees could draw additional people out of Cambodia and increase the border population to well above the present quarter-million. Such a development would place an overwhelming burden on Thailand and the international organizations involved in caring for the displaced Khmer.

PROCESSING OF LAND VIETNAMESE

Senator Hatfield: What is the approval rate for the land Vietnamese currently being processed at Site II?

Mr. Purcell: All cases in priorities one through five have been processed. There have been about 1,500 approvals and about 250 denials, for an acceptance rate of about 86%.

Senator Hatfield: What are the categories of acceptance (P-1, 2, 3, etc.) and what are the reasons for denial?

Mr. Purcell: All denials have been under Section 101(a)(42) for failure to meet the refugee definition. A number of applicants bribed their way to Thailand and were found not to be fleeing persecution, but seeking economic opportunities.

The Department and INS have directed the embassy to process land Vietnamese cases in priorities one through five and those

priority six cases which fall within the categories included in the INS processing guidelines. Because of the special situation in regard to the Montagnards, we processed all members of that group and all were approved for U.S. resettlement.

REVIEW OF DENIED KHMER CASES

Senator Hatfield: Why did the Khmer reconsideration group not look to the findings of fact in the refugee processing, findings which were biased by a State Department officer in Bangkok who openly admitted his intention, in January 1985, of ending the refugee resettlement program, and who set up the ethnic affairs officer program which determined Khmer Rouge association?

Mr. Purcell: Because of the extraordinary circumstances that surrounded the processing of the Khmer population which arrived in Thailand in 1978-80, a second "special" review of denied cases was conducted from November 1985 through January 1986. During this review all aspects of denied cases were considered.

JVA personnel reviewed the files of all denied cases, and 629 cases (involving 3,100 individuals) were referred to a special panel. Of the cases referred to the panel, 529 were considered possibly reversible by JVA personnel and 100 were cases for which there had been special requests for review from outside of the Department, including from members of the Congress. These cases were discussed in depth by a panel consisting of JVA caseworkers, ethnic affairs officers, Embassy refugee officers, and INS officers. A few applicants were actually re-interviewed. Two experienced senior INS officers, sent to Bangkok specifically for this review, made the final determinations of eligibility of these applicants after reviewing the files and hearing the views of the panel. Of these 629 "strongest" cases, INS approved only 59 (or less than 10%).

Currently, all requests for reconsideration of denied Khmer cases are being handled in the same manner as those of all other applicants worldwide, i.e., at the discretion of the INS officer-in-charge. We believe that the INS officials in Bangkok can promptly address any additional cases which may emerge which, based on facts presented, warrant additional review or reconsideration.

This Bureau established the ethnic affairs officer program and developed considerable material concerning circumstances within Cambodia during the Khmer Rouge period in order to provide a better basis on which to determine the eligibility or ineligibility of applicants for refugee status. These actions were in no way designed to increase findings of ineligibility, but were meant to improve the basis on which all determinations (favorable or unfavorable) were made.

U.S. COORDINATOR FOR REFUGEE AFFAIRS POSITION

Senator Hatfield: Is there any need, in your opinion, for a U.S. Coordinator for Refugee Affairs position?

Mr. Purcell: As you know, President Reagan has recently nominated Mr. Jonathan Moore to be the Coordinator for Refugee Affairs. We at the Department of State look forward to working closely with Mr. Moore to ensure that U.S. refugee policies and programs are both planned and implemented in the most coherent, efficient manner possible. Through close coordination, we would hope to ensure that redundancies do not occur.

LAO SCREENING

Senator Hatfield: Why are there continued failures in embassy reporting on the Lao screening questions? Despite frequent requests, our Committee has not received any information (none in the last six months) on Lao screening, pushbacks, or the success of the UNHCR repatriation program?

Mr. Purcell: Embassy Bangkok continues to report on the UNHCR/Royal Thai Government Lao screening program. The Department of State is aware of no outstanding request from the Committee for information since the inception of the screening program on July 1, 1985.

Between July 1, 1985 and April 30, 1986, Thai officials screened 3856 Lao. Of this number 1892 were admitted to first asylum in Thailand; 1018 were rejected and remain in Thailand in special holding centers awaiting permission to return to Laos; and 946 cases are still undecided. The majority of the pending cases await documentation to establish family ties or employment history. By late February 1986 UNHCR observers appealed 75 local decisions, of which 37 were undecided and 38 overturned.

The U.S. Government has encouraged the universal and uniform application of the screening process for all Lao entrants. Reports of pushbacks have decreased since the screening began.

2894 Lao have returned to Laos under the UNHCR voluntary repatriation program. It is estimated that 200 Laotians will be voluntarily repatriated during CY 1986. UNHCR is working to improve its information program for potential repatriates and has just announced several new reintegration projects to assist those who return.

SALVADORAN AND GUATEMALAN REFUGEES

Senator Hatfield: Why is the rejection rate of Salvadoran and Guatemalan refugees so high, given the documented reports of governmental abuse in those countries of civilians?

Mr. Purcell: Any applicants for refugee or asylum status must demonstrate that they have been persecuted or have a well-founded fear of persecution on account of race, religion, nationality, membership in a particular social group, or political opinion. Those who have been denied refugee status or asylum have been unable to meet the requirements of this definition.

No Guatemalan nor Salvadoran has been denied refugee status by INS during the current fiscal year.

All Central American Embassies and Consulates were instructed to carefully consider all prospective Central American refugees who appeared to qualify for admission to the U.S. as refugees and to submit potential cases to the Department for review.

However, no application for refugee status by a Guatemalan or Salvadoran has been reported as received at any refugee processing post around the world during the current fiscal year.

ASYLUM FOR GUATEMALANS

Senator Hatfield: What are the criteria used by our embassy in Guatemala City to provide asylum for citizens seeking safety from governmental secret police who are responsible for the deaths of thousands of "missing" citizens? Is our embassy there working with individuals claiming governmental persecution?

Mr. Purcell: Asylum can only be granted to someone who is physically present in the United States. To qualify for asylum, applicants must demonstrate persecution or a well founded fear of persecution on account of race, religion, nationality, membership in a particular social group, or political opinion.

Our embassy in Guatemala has been instructed to carefully review and submit to the Department all cases involving potential refugees, those who have been persecuted or who have a well founded fear of persecution on account of race, religion, nationality, membership in a particular social group, or political [illegible]ion and who are not present in the U.S. However, no such case [illegible]een submitted for consideration during FY 1986.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

SALVADORAN REFUGEE CAMPS IN HONDURAS

Senator D'Amato: In testimony before this Committee last week, Michael Rothfeld of the U.S. Defense Committee described the refugee camps along the border with El Salvador in Honduras which are run by the United Nations High Commission on Refugees (UNHCR) as "safe areas for Salvadoran Guerrillas." Could you comment on this?

Mr. Purcell: Our Embassy in Tegucigalpa has carefully examined the Salvadoran refugee camp problem and has found

substantial evidence that Salvadoran guerrilla activities in these camps have posed a serious threat to the well-being of legitimate refugees living in these camps. Abuse of the camps includes diversion of food and medical supplies to guerrilla forces in El Salvador, the use of the camp as a convalescent center for wounded guerrillas, and punishment by the guerrilla organization within the camps of refugees who refuse to cooperate with the guerrilla activities.

We shared these findings with the Government of Honduras and the UNHCR in an attempt to eliminate this problem, and they have initiated efforts to establish better control of the camps by placing more officials there and by improved monitoring of supplies. We feel that these steps, plus better control over the entry into and exit from the camps, should substantially reduce the guerrillas' abuse of the camps and of the refugees.

UNHCR AND U.S. INTERESTS

Senator D'Amato: Are there other instances where UNHCR is assisting efforts contrary to U.S interests?

Mr. Purcell: UNHCR efforts, as mandated by the international community, are to provide for the legal protection and material assistance of refugees worldwide and seek permanent solutions to their plight. The United States endorses and supports the UNHCR mandate. In fulfillment of its mandate, UNHCR is to be impartial toward refugees, independent of governments and neutral concerning political issues. As a member of the UNHCR Executive Committee we participate in the review of UNHCR's proposed programs and have every opportunity to comments on any aspect of its operations.

There may be occasions when individuals within UNHCR have acted contrary to UNHCR interests. We believe such abuses are rare and that UNHCR has been responsible in its efforts to deal with such problems.

PRESUMPTION OF PERSECUTION

Senator D'Amato: There is an effort to change an immigration preference for refugees from totalitarian nations by allowing a presumption of political persecution, instead of having to prove political persecution. What is the State Department's position on this possible change?

What would be the immediate effect of this change?

Mr. Purcell: As your question indicates, it is not current Administration policy to presume political persecution for all applicants from totalitarian nations who are seeking resettlement as refugees in the United States. We are aware that a proposal to change the policy along the lines you suggest has been under

consideration in the Department of Justice for the past year or more. However, this proposal is still an internal matter within the Justice Department, and the Department of State has not been asked for its views on it. We therefore have not established a position on this possible change, nor have we looked into the potential effects of such a change.

ANTI-PIRACY

Senator D'Amato: In a single incident in December of last year, approximately 50 Vietnamese boat people were killed by Thai pirates. Why is so little money being directed to this problem (only $1.5 million)?

Mr. Purcell: In fact, we have contributed more than $1.5 million for antipiracy efforts. In FY 1986, we will be contributing about $2.3 million, and our request for FY 1987 is $1.75 million. Of course, as you note, these funds are still rather small in relationship to our total refugee program.

However, the problem of piracy is one which an increased funding level will not necessarily solve. In order to improve our past results, we, and the UNHCR, have changed our program emphasis from surveillance and interdiction at sea, to assisting land-based law enforcement authorities to investigate piracy cases, identify and arrest suspects, and prepare successful court cases. So far, with the cooperation of Thai and Malaysian officials, there is reason to believe that we have begun a truly effective deterrent to piracy. The results in the first six months of this effort have been very gratifying:

-- In the first three months of this year Thai police officials arrested more persons for piracy-related crimes than in the past three years combined.

-- The way the police carry out their work shows laudable dedication and ingenuity.

-- This kind of program is truly cost effective. While the cost is relatively inexpensive (less than $400,000 overall for U.S. funding of these Thai efforts), the program brings positive results that exceed our past accomplishments.

The remainder of our anti-piracy program is directed to assisting the international effort to combat piracy through the UNHCR/Royal Thai Government anti-piracy program, which is also in the process of changing its emphasis to include a growing reliance on land-based law enforcement efforts to deter piracy.

Questions Submitted by Senator Specter

RECORD KEEPING OF ASYLUM REQUESTS

Senator Specter: When you testified before this subcommittee a year ago, I raised my concern about the remarkably small

percentage of Guatemalan and Salvadoran asylum applications approved. Mr. Elliott Abrams, then Assistant Secretary for Human Rights, suggested a GAO study of the asylum process, which I promptly requested. To date, all GAO has been able to report is that the "filing" system for tracking asylum cases is virtually nonexistent and that, as a result, accountability is negligible. GAO was finally able to overcome the paperwork chaos, and I expect to have a preliminary report early next month.

My question in the meantime is whether any effort is being made to keep better records so as to enhance accountability and the opportunity for appropriate Congressional oversight?

Mr. Purcell: To answer your question, I have consulted with the Department of State's Bureau of Human Rights and Humanitarian Affairs. That bureau has provided me with the following information.

In his remarks before the subcommittee, Mr. Abrams pointed out that members of Congress did not need legislation to request a GAO study of the asylum process or conditions in El Salvador. A GAO study is a component of S.377, which would suspend deportation of Salvadoran nationals in the United States, pending the study.

We have worked closely with the GAO on their study of the asylum office, providing them with records and cases of their choosing. Although we have not seen the GAO report, we would find it difficult to believe that the GAO feels the State Department has a filing system that is "virtually nonexistent" and that, as a result, accountability is "negligible."

The GAO used State Department files and records as a means of setting up a data base to study the complete process between State, the INS, and the Immigration Court. They did this because we have an exacting record keeping system. Cases received by the Department since March of 1985 have been logged in and out, utilizing our new computer system. The system tracks cases by nationality, name, A number, and birth date. Because the computer system is easy to use and information is easily retrievable, we suggested to GAO that they base their study on cases received since March, 1985. The GAO declined to use the computers and the 1985 cases, because they wanted to study 1984 cases.

The Department's receipts for 1984 and prior are logged in on file cards. The cards are filed by year, by nationality, and in alphabetical order under the nationality. There are approximately 20,000 cards for the calendar year 1984. Each card is clearly marked as to the receipt date of the case, the mailing date of the advisory opinion, and the deposition of the case. Many cards have several dates, as cases are received for second opinions.

The GAO chose not to individually account for each case, which would have produced an exact count by nationality. Instead, they measured the cards and determined that each inch of cards encompassed a certain number of cases. They then estimated the number of cases for each particular group. Certainly, this

estimate would have drawbacks, as it would not give an exact number of cases or account for second opinions. However, this was the choice of the GAO. We would be glad to provide the cards to the GAO if you feel their methodology is unsatisfactory.

The Central American caseload, prior to use of computers beginning in March 1985, was not logged in on cards. We simply were not able to keep up with the work involved in making up cards and folders for this caseload. However, the cases were carefully filed by nationality and A number, in order that they would be easily retrievable. The advisory opinion letters were attached to each case. We understand that the GAO had no trouble examining this caseload, other than that the cases are physically located in the State Department basement.

Questions Submitted by Senator Inouye

DISPLACED KHMER

Senator Inouye: As you know, in its fiscal 1986 report on foreign assistance appropriations, the committee drew attention to the plight of Khmer refugees on the Thai/Kampuchean border.

We noted the extreme vulnerability of Khmer refugees located at Site 2, a mere 2 kilometers from the border, and we expressed our concern that these refugees were in danger of being overrun by renewed fighting.

We called upon the Department to urgently achieve relocation of refugees to a site in Thailand which is beyond the immediate danger posed by Vietnamese artillery located in Kampuchea.

Have these Khmer refugees been moved to a safer location?

Mr. Purcell: The displaced Khmer granted temporary refuge in Thailand remain in approximately the same locations near the Thai-Cambodian border. With the exception of a recent shelling of the Khmer Rouge camp at Site 8, there were no attacks on the civilian camps during the past dry season. A number of steps, however, were taken to provide better security. The U.S. supported the efforts of the Royal Thai Government (RTG) and the U.N. Border Relief Operation (UNBRO) to separate civilians and combatants along the border. Evacuation sites were prepared for all camps and the RTG has continued its policy of providing for evacuation of Khmer camps in advance of Vietnamese attacks. U.S. and ASEAN diplomatic contacts with the SRV emphasized the importance attached to the safety of the border Khmer.

Senator Inouye: The Committee also called upon the Department of State to make the safety of these refugees a matter of concern, not only to the Bureau for Refugee Matters, but also to all offices which have responsibilities for economic and military assistance programs.

Has this been done?

Mr. Purcell: The safety of the displaced Khmer along the Thai-Cambodian border is of concern to all elements of the Administration. It has been discussed by officials from outside the Bureau for Refugee Programs on numerous occasions in their contacts with officials of the international organizations, the Royal Thai Government, other ASEAN governments, and the Socialist Republic of Vietnam. A January 1986 meeting of Assistant Secretary of State Wolfowitz and Assistant Secretary of Defense Armitage, with the Vietnamese concerning POW/MIA issues was made conditional on Vietnam's refraining from attacking the civilian camps.

LAND VIETNAMESE

Senator Inouye: In the language of last year's bill, the Committee earmarked up to $2.5 million for the orderly movement of overland Vietnamese refugees to a site apart from hostile Khmer refugees at Site 2 to another location "where they will be safe and [can] be processed for emigration to other countries."

Have the overland refugees been moved to a safe location?

Mr. Purcell: Some 6000 land Vietnamese, that is those who arrived in Thailand after an overland exodus through Cambodia, are presently in a separate section of the Site II evacuation camp for displaced Khmer. In late 1985, they were moved to this location, which is larger than their earlier camp and further removed from the Khmer population. The International Committee of the Red Cross is responsible for their protection and relief. We anticipate that land Vietnamese will be transferred from the Thai-Cambodian border to Phanat Nikhom in the very near future.

Senator Inouye: Are they being processed for resettlement?

Mr. Purcell: Since late 1985, the U.S. has processed land Vietnamese as immigrants and refugees. About 1500 have been accepted for admission as refugees. Processing will continue after the move to Phanat Nikhom has been completed.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

ICARA II

Senator DeConcini: The Committee recently received a report from the Department of State on funding for initiatives for ICARA II-type projects for the rehabilitation of refugees. This represents a significant first step. However, the report states that funding for ICARA II projects in FY 86 and FY 87 is quite small. Senator Hatfield and I have written to Secretary Shultz concerning this report.

What have we to ensure that you do not have to continually parade up to the Hill to request basic assistance for the same refugee groups?

Mr. Purcell: Quite frankly, Senator, to ensure that we do not continue to seek additional funds for the same groups, the first step would be Congressional support of the Administration's refugee budget requests. Given the Gramm-Rudman cuts this year, our appropriations are not sufficient to cover the U.S. fair share of basic short-term assistance, much less address significant funds to resolve longer-term issues. As you know, our prospects for 1987 are worse. However, within our limited resources, we continue to do the best we can to encourage resolution of problems so that we can break the cycle of long-term refugee dependency on international assistance. One of the mandates of the UNHCR is to promote durable solutions to refugee problems. In Africa this most often takes the form of local integration/self reliance projects which we and other donors support through our contributions to the General Program.

The need to provide development-oriented assistance to refugees in Africa in order to avoid an open-ended burden of caring for dependent refugees has been recognized and discussed under several different rubrics in recent years -- Durable Solutions, Refugee Aid and Development, ICARA II, African Famine Refugee Recovery. For example, a recent U.N. mission to Sudan to study the impact of refugees noted that "without emergency [drought-related] interventions, some of which are designed to stimulate the recovery of infrastructure and public services, there will be little foundation upon which to mount longer-term rehabilitation efforts and to encourage the resumption of development programs . A durable solution to the problem of refugees cannot be divorced from general rural development."

The process of integrating refugee aid and development aid holds promise for bringing down assistance costs over the longer term, which is very much in the self interest of the USG as the largest single contributor of refugee assistance. We are hopeful that the UNHCR will be able to direct traditional programs and available resources to a more aggressive pursuit of durable solutions. For development-oriented refugee projects that are beyond the program and competence of the UNHCR, the Administration will seek to fold such activities into regular development portfolios where possible. We also recognize that UNHCR faces the same fundamental dilemma as we: with a system of annual budgets and current budget constraints, we are hard-pressed to address short-term needs; and longer-term projects can often be funded only at the expense of short-term care and maintenance.

Senator DeConcini: The report refers to the need to consider refugee rehabilitation within a larger country development context. To what extent is there collaboration between the Refugee Bureau and USAID in considering the presence of refugees when strategizing about future development?

Mr. Purcell: AID and RP have been working closely on the integration of refugee aid and development in Africa since the 1981 First International Conference on Assistance to Refugees in Africa. An African Refugee Resettlement Services and Facilities Project was created to program $45 million in funds transferred

in 1982 and 1984 from the Migration and Refugee Assistance account to the AID International Disaster Assistance account. (These monies have now been completely allocated.) RP staff sit on the Executive Project Review Committees that manage individual projects. To the extent possible, RP staff also participate in the AID review process for Country Development Strategy Statements and Annual Budget Submissions. When our staff visit African countries to monitor USG-supported refugee assistance efforts, they consult with USAID personnel as well on the given refugee situation.

Senator DeConcini: Why are refugees not mentioned in AID's Country Development Strategy Statements for countries affected by refugees requiring local settlement, like Somalia?

Mr. Purcell: One of the ways we have coordinated with AID on refugee issues is to try to ensure that the Country Development Strategy Statements as well as other development concept papers recognize the presence of refugees as a constraint to the development of both the countries of origin and countries of asylum. In some cases, refugees represent a development opportunity as well. The most recent strategy statements for Sudan and Somalia, two of the most affected African countries, do indeed cover refugees.

I should point out that USG development strategy for a given country is in large part a reflection of the strategy of the host government. Many African nations are understandably anxious that donor support for refugee projects not displace development projects for their own nationals. This was behind the African desire at ICARA II for "additionality." We were very pleased that at a recent Consultative Group meeting held on aid to Somalia, the Government of Somalia included refugees on the agenda as part of its development strategy. The African governments themselves must commit themselves to including refugees in their development plans which the USG can then support.

REFUGEES IN HONDURAS

Senator DeConcini: The Foreign Minister of Honduras, Mr. Carlos Lopez, noted in a speech before the OAS that his country was considering becoming only a transit country for refugees. He urged that all countries share in the task of accepting Central American refugees. Canada, I understand, has taken in refugees while we have been slow to respond.

How are we responding to this statement by Mr. Lopez?

Mr. Purcell: Honduras is host to approximately 90,000 to 100,000 Nicaraguan refugees. The Government of Honduras has expressed concern over the socio-economic burden that this population places on its own resources. Mr. Lopez's statement was mainly a general request for the sharing of the Nicaraguan refugee burden by other Latin American countries who have downplayed the problems and magnitude of the Nicaraguan refugee outflows.

Senator DeConcini: Are there protection problems for refugees in these areas?

Mr. Purcell: Protection problems for Central American refugees in these areas have only occurred in a few isolated incidents. The host governments and the UNHCR have worked closely together to eliminate any prospective protection problems.

Senator DeConcini: How many slots do we reserve for this and how many are we using?

Mr. Purcell: We do not reserve any slots per se for refugees from first asylum in Honduras. Our budgeted number of Latin American refugee admissions was pared from the 3,000 regional ceiling to 250 because of Gramm-Rudman-Hollings budgetary constraints and failure of the Cuban government to lift its unilateral suspension of the migration agreement. However, any Latin American refugee of any nationality who comes forward to apply for the U.S. refugee program will be considered for admission in accordance with U.S. law and regulation.

BUREAU OF INTERNATIONAL NARCOTICS MATTERS

STATEMENT OF ANN WROBLESKI, ACTING ASSISTANT SECRETARY, BUREAU FOR INTERNATIONAL NARCOTICS MATTERS, DEPARTMENT OF STATE

ACCOMPANIED BY RAYBURN F. HESSE, SPECIAL ASSISTANT FOR POLICY

BUDGET REQUEST

Senator KASTEN. The committee will come to order.

Our next witness is Ann Wrobleski, who is the Acting Assistant Secretary, Bureau of International Narcotics Matters, Department of State.

Ms. Wrobleski?

Ms. WROBLESKI. Mr. Chairman, our 1987 appropriations request is $65.4 million, an increase of $5.4 million. We propose to allocate 84.3 percent of our budget to in-country programs. The balance will be spent in multilateral and interregional programs, such as the training programs conducted by DEA and Customs and our program development support activities.

NARCOTIC CROP ERADICATION PROGRAMS

Our highest priority is reducing cultivation and production of illicit narcotics. In 1981, only two countries were eradicating illicit narcotic crops. In 1985, 14 countries eradicated narcotic crops, moving closer to the objective of having effective eradication campaigns operating simultaneously in all key growing sectors.

Our 1987 budget includes a substantial increase in funds for narcotic crop eradication programs. Increased funding for enforcement efforts is also projected for such activities to support crop reduction efforts or directly impact the supply of illicit narcotics or precursor chemicals.

We met and even exceeded many of our 1985 objectives. We will do even more this year and next. In 1986, we will launch the special Latin American Regional Enforcement Program for which your committee graciously provided an additional $5 million. With that money, we are creating an expanded air wing base in Colombia to upgrade regional strike force capability throughout the growing region. These aircraft in the Colombian narcotics control fleet will be armed and armored, drawing upon the $1 million in MAP funds made available to INM.

The continuing prominence of Latin America and the Caribbean in the production and export of illicit narcotics again compels us to allocate 59 percent of our funding to that region.

AERIAL ERADICATION PROGRAMS

Aerial eradication of marijuana in Colombia resulted in a reduction of 67 percent in gross cultivation, part of a total national police effort that has also resulted in seizures of contraband, laboratories, and precursor chemicals. Colombia has been testing herbicides that could be effective in eliminating coca.

The 1987 budget presupposes a full-fledged aerial campaign against coca as well as marijuana. Our 1987 budget projects increased funding for eradication in all of our program countries as well as Jamaica, Panama, and Belize, which are funded from our regional account, and includes support for improvement of the Mexican eradication programs against opium poppy and marijuana.

We have increased 1986 budgeting for Ecuador and in 1987 propose to support an eradication program in Bolivia. We plan to expand manual coca eradication in Peru, including action on a second front, and we are hopeful of a sustained eradication program in Bolivia.

PROGRAM IN ASIA

In Asia, our 1987 budget contemplates expansion of the vital Burmese aerial eradication campaign. The Thai Government could significantly reduce opium cultivation in 1986 and has said that commercial opium production could be almost eliminated in the next 5 years. Increased funding in 1987 will assist the Thai Government in the eradication program and support the Thai paramilitary forces interdicting trafficking and refining operations along the Thai-Burma border.

In Southwest Asia, INM will continue support for new Pakistani joint narcotics task force units and special drug enforcement units of Pakistani customs, while maintaining support for outreach activities to help farmers switch to other crops in opium growing areas. INM will also continue support for the enforcement efforts of the Turkish National Police and the Jandarma.

Diplomatic priority will continue to be on the continuing internationalization of the global program, drawing heavily on such U.N. activities as the deliberations on this new trafficking convention, and planning for the 1987 World Conference on Drugs, which will take place in June in Vienna.

In conclusion, let me draw attention to the progress noted in our annual report which we submitted to you in February. These are substantive gains, and the prospects for continued advancement in 1986 and 1987 are generally realizable. But the situation remains severe. Production still outpaces demand. Drug abuse has spread to many drug producing and trafficking countries, and narcotics trafficking organizations in some countries are so powerful that they pose a national security threat to the legitimate government.

Narcotics-related violence is on the increase.

However, there is a significant change occurring. Much of our hope lies in that change. Other nations now realize that narcotics trafficking is a clear and present universal danger and that they, too, stand in

harm's way. With that realization, we are finally beginning to work together as an international community progressing toward common goals.

Thank you.

[The statement of Ms. Wrobleski follows:]

PREPARED STATEMENT OF ANN B. WROBLESKI
ACTING ASSISTANT SECRETARY
BUREAU OF INTERNATIONAL NARCOTICS MATTERS

Mr. Chairman:

The Bureau of International Narcotics Matters offers testimony today in behalf of its Fiscal Year 1987 appropriation request of $65,445,000. We will confine our testimony to the actual request, with comparisons to the 1986 budget, and appropriate comments on the progress we believe has been made in international narcotics control, as well as the problems we continue to encounter.

The 1987 budget would be an increase of $5.4 million over our actual 1986 budget of $60,044,000. Thanks to you, Mr. Chairman and your Subcommittee, this 1986 budget included a transfer of $5 million from the Lebanon Support Fund which we have allocated to special emphasis narcotics enforcement programs in Latin America, in accord with the intent declared in your Subcommittee report.

Before discussing our 1987 spending objectives, let me briefly report to the Committee on how we absorbed the 4.3 percent Gramm-Rudman-Hollings reduction in 1986.

In FY 1986, INM was required to absorb $2,485,000 in reductions from a total of $62,529,000, resulting in a new 1986 budget level of $60,044,000. The FY 1986 budget consists of new budget authority of $57.5 million and the additional appropriation of $5 million. This additional funding resulted in INM having a higher base for 1986 than would have occurred normally, given the Gramm-Rudman-Hollings reductions. A chart is provided. Note that cuts have been absorbed in all line item activities except Colombia, Mexico, Latin America regional and central program and development. As a result of these reductions, INM will be required to delay implementation of certain program initiatives. For example, the $460,000

reduction in Burma will require the Bureau to postpone until FY 1987 certain activities required to expand the fixed-wing aerial eradication program.

In 1987, we propose to allocate $55.2 million, or 84.3 percent of our total budget, to in-country programs. The balance will be spent on inter-regional programs, including our sponsorship of the successful training programs conducted by the Drug Enforcement Administration and U.S. Customs, as well as contributions to multilateral programs and to program development and support activities.

The country program total includes $37.9 million for Latin America, 68.7 percent of the country budget; $13.1 million for East Asia, or 23.7 percent; and $4.2 million for Southwest Asia, or 7.5 percent of the country budget.

The Department assigns its highest priority to reducing cultivation and production of illicit narcotics, through bans and eradication supported by interdiction and other enforcement programs operating as close to the source as possible. We note that, in 1981, when we began our current strategy, only two countries were eradicating illicit narcotic crops. In 1985, 14 countries eradicated narcotic crops, moving us closer to our objective of having effective eradication campaigns operating simultaneously in all key growing sectors. Achieving this long-term objective is central to our goal of reducing the availability of imported illicit narcotics in the United States.

The proposed 1987 budget therefore includes a substantial increase in funds for narcotic crop eradication programs, building on new or expanded crop control efforts in key countries. Increased funding for enforcement efforts are projected where such activities support crop reduction efforts and/or will directly impact on the supply of illicit narcotics or precursor chemicals.

At the outset of 1985, we set a number of strategic and tactical goals, and, as we stated in our annual report to

Congress in February, we believe that in most cases we not only met but exceeded those objectives. The record shows that 1985 was a very productive year for program expansion and internationalization. We will do even more in 1986, during which our program priorities include solidifying the considerable gains in Colombia, sustaining the increasingly effective expansion of eradication programs in Thailand, Burma, Jamaica, Peru, Brazil, Ecuador, Panama, Belize and Pakistan, and intensifying our efforts to upgrade the programs in Mexico and Bolivia. The diplomatic priority will be on continuing the rapid internationalization of the global program, drawing heavily on such United Nations activities as the deliberations on a new trafficking convention and planning for the 1987 World Conference on Drugs to heighten awareness and participation by donor and source nations alike.

During 1986, we will launch the special emphasis Latin American regional enforcement program for which your Committee sought an additional appropriation of $5 million. We concluded discussions with our Embassy and the Government of Colombia on Tuesday, and are agreed on creating an expanded air wing in Colombia to upgrade regional strike force capability throughout the Andean coca growing region. We will utilize a good part of the $5 million, which we have budgeted under "Latin American regional programs," to purchase two transport helicopters on an immediate basis. These aircraft may be armed and armored, drawing upon the special account of $1 million in MAP funds which Congress made available to INM. We will grant the aircraft to the National Police of Colombia, under an agreement calling for Colombia, for a period of two years, to provide operational support for special enforcement initiatives in the region. As we have previously reported, there has been great progress in regional initiatives, thanks to the proficiency and capability of the Colombian National Police. The National Police supported a cross-border coca and cocaine interdiction

program with Peru, which led to a series of interdiction successes by Peru in 1985. Colombia also participated in a cross-border coca eradication program with Ecuador. Peru, Ecuador and other governments in the area critically need air mobility, and we think combining air mobility with Colombian expertise affords the best package we can provide to the other governments in the coca belt. The Colombian National Police will be responsible for drawing up collaborative plans with other governments in the region. We are also allocating a portion of the 1986 INM budget for maintenance and operation of these aircraft. The balance of the supplemental funding which your Comnmittee provided will be used for other regional initiatives. As you know, our Latin American regional fund provides the resources for the eradication programs in Jamaica, Belize and Panama.

For 1987, the continuing prominence of Latin America and the Caribbean in the production and export of illicit narcotics to the United States again compels us to allocate the major share of funding (68 percent of the country budget and 59 percent of total budget) to that region. Discounting the $5 million transfer-in from 1986 totals, we propose to increase funding for the Latin American region by about $6 million.

The breakthrough on aerial eradication of marijuana in Colombia has not only resulted in a reduction of 67 percent in gross cultivation, but is part of a total National Police effort that has resulted in a strong interdiction campaign with good results in seizures of contraband, laboratories and precursor chemicals. Importantly, Colombia has been testing herbicides that could be effective in comprehensive programs to eliminate coca bushes. Thus, we are not only proposing to center our regional air strike capability in Colombia, but to expand eradication operations through increased funding in 1987.

The 1987 budget presupposes a full-fledged aerial campaign against coca as well as marijuana. Indeed, our 1987 budget

projects increased funding for eradication in all of our program countries, as well as Jamaica, Panama and Belize which are funded from the regional account. The budget includes support for improvement of the Mexican eradication campaigns against opium poppy and marijuana. We have increased 1986 funding for Ecuador and in 1987 propose to support an aerial eradication program against coca in Ecuador. We plan to expand manual coca eradication in Peru, including action on a second front. And, we are hopeful of a sustained eradication program in Bolivia.

Enforcement assistance will continue to play a significant role in the Peruvian and Bolivian programs, where there is a parallel need to provide security for the narcotics control efforts. A significant increase in interdiction assistance is provided under the regional account. Modest amounts are included in most programs to provide technical assistance for drug abuse prevention and education projects.

In Southeast Asia, our 1987 budget request contemplates continuation and expansion of the vital Burmese aerial eradication campaign. More than 33,000 hectares of opium poppy have been reported destroyed by the Burmese Government this year. Funds are included to procure additional fixed and rotary wing transport aircraft which will enable the Burmese government to carry out operations aimed at narcotics trafficking groups, primarily the Burmese Communist Party and warlord organizations operating on the border with Thailand. Support will also be provided to improve the capability of the Burmese police to interdict narcotics trafficking.

The Royal Thai Government has adopted a policy of eradicating opium poppy in areas where farmers have benefitted from development assistance and are able to market alternative crops, or where farmers have refused to participate in alternative crop programs. Our annual report projects that the Thai could significantly reduce opium cultivation in 1986, and

notes a Thai projection that so-called commercial opium production could be eliminated in the next five years. Increased funding in 1987 will assist the Thai Government in providing "bridge" assistance to farmers who agree not to cultivate poppy, or whose crop is eradicated. Funds are also included to continue support to Thai paramilitary forces interdicting trafficking and refining operations along the Thai-Burma border, and to enhance the narcotics investigation capabilities of Thai police units.

In Southwest Asia, INM plans in 1987 to continue support for the establishment of new Pakistani joint narcotics task force units and special drug enforcement units of Pakistani customs, while maintaining support for outreach activities to help farmers switch to other crops in opium growing areas where major development assistance projects do not exist. INM will also continue support for the enforcement efforts of the Turkish National Police and the Jandarma.

The 1987 budget will fund an increase of $295,000 in the U.S. contribution to the United Nations Fund for Drug Abuse Control (UNFDAC) which, among other activities, funds coca control related projects in South America, and coordinates donor support for the Special Development and Enforcement Plan in Pakistan. Funding will also support Colombo Plan regional narcotics control activities, and expanded drug education and prevention programs in selected countries.

Finally, funding is provided to support the international narcotics enforcement training administered by the Drug Enforcement Administration and U.S. Customs. An estimated 2,300 individuals will be trained through 17 specialized basic and advance-level courses for foreign law enforcement personnel.

In conclusion, let me draw the Committee's attention again to the progress noted in our annual report. These are substantive gains, and the prospects for continued advancement in 1986 are genuinely realizable. But, let me also state that

the drug situation remains severe. Production still outpaces demand. But, there is a significant change occurring and much of our hopes ride on that change. Drug abuse has spread to many drug producing and trafficking countries, and narcotics trafficking organizations in some countries are so powerful that they pose a national security threat to the legitimate government. Narcotics-related violence is on the increase.

Narcotics trafficking is a clear and present danger. The change is that these other nations now realize that the danger is universal, that they too stand in harm's way. With that realization, we are finally beginning to work together, as an international community progressing toward common goals.

NARCOTICS-RELATED VIOLENCE

Senator KASTEN. Thank you very much.

Let me just pick up on what you said toward the end of your statement. You commented on narcotics-related violence. There has been more and more discussion in the press about drug trafficking not only being responsible for a lot of violence, but, in fact, being used to finance or payroll different kinds of terrorism.

There was an article in February that Prof. Rachel Ehrenfeld of the Colombia School of International Affairs and Prof. Michael Kahan of Brooklyn College's Political Science Department wrote in the Wall Street Journal linking international drug trade and terrorism. There have been other examples where we have seen links between the international drug trade and terrorism, and also links between certain governments in South and Central America and terrorism.

Among other things, the article that I am referring to here said that the common thread linking international drug trafficking with terrorism is an attempt to undermine the West directed mainly by the Soviet Union and her allies.

They go on to say responsible public officials must have the courage to describe the dimensions of the problem. "The public will at first be reluctant to believe the existence of such a grand conspiracy between international, political and criminal forces, but the effort," they say in their article, "must be made."

RELATION BETWEEN DRUG TRAFFICKING AND TERRORISM

What is the administration's position on this theory? Is drug trafficking, indeed, bankrolling terrorism, and to what degree is this part of the overall conflict between the Soviet Union and the satellite countries or allies in our country?

Ms. WROBLESKI. I have not seen the article, Mr. Chairman. I would like to. I probably could more fully comment for the record after I have seen it.

But let me say this: I think that what we have seen is linkages between insurgencies in different countries and narcotics trafficking. Burma, I guess, is the classic example in Asia, where the Burmese Communist Party and the Shan United Army fund their antigovernment activities through narcotics trafficking.

Colombia is an example in this hemisphere where the M–19, we have reason to believe, the Colombians are——

Senator KASTEN. You might want to speak up.

Ms. WROBLESKI [continuing]. Not only in league with narcotics traffickers to fund their insurgencies. The Colombians, of course, believe that the assault on the Palace of Justice earlier this year was funded in part by the narcotics traffickers as a way to get at extradition files. In terms of what I guess you would characterize, and I don't want to get into semantics, as pure terrorism, where we suspect the linkage, although we don't have proof, is with the Sindero Luminoso in Peru.

We do not have any evidence that I am aware of regarding any pure terrorist linkage, but I think that if you look at the climate the narcotics traffickers operate in, which is a climate that is outside the law, and in most cases, is in territory that is not controlled by the government, and then you also look at the way in which terrorist organizations and insurgencies operate, there would seem to be some room for collaboration between the two.

That is obviously of great concern, particularly with the amounts of money that are involved in narcotics trafficking.

Senator KASTEN. I will ask that you respond in more detail to that question for the record.

Ms. WROBLESKI. I would be happy to.

[The material follows:]

NARCOTICS: ROLE OF COMMUNIST GOVERNMENTS AND TERRORIST GROUPS

On May 14, 1985, Deputy Assistant Secretary Taylor, INM, testified to the Committee on Foreign Relations that "there is no evidence of a Communist conspiracy to use drugs to undermine Western democracies, or our own society in particular." However, as Secretary Shultz said to the Miami Chamber of Commerce in September 1984, it is "not hard to imagine that smuggling massive amounts of drugs into Western nations may serve their broader goal of attempting to weaken the fabric of Western democratic society."

We have documented the involvement of high level officials in certain Communist or Communist-influenced governments, notably Bulgaria, Cuba, and Nicaragua, in the narcotics trade, but have stopped short of declaring that Communist governments worldwide have engaged in the drug trade as a matter of policy. Instead, the Secretary has said that the complicity of certain Communist governments in the drug trade is part of a larger pattern of international lawlessness by Communist nations, and is cause for grave concern. Again, the nations which have been singled out by the Department are Bulgaria, Cuba, and Nicaragua.

There are roughly four categories of organizations with which we are concerned: criminal profiteers (who dominate the narcotics trade in every hemisphere), political insurgent groups (including the warlord armies in Asia like the Shan United Army and the FARC, M–19, ELN, and others in Colombia), terrorist groups (like Bulgaria, Cuba, and Nicaragua, or Bolivia in 1980–81 who give direct and indirect support).

GOVERNMENT INVOLVEMENT IN DRUG PROBLEM

Senator KASTEN. Do you happen to know how many separate Federal Government departments or agencies or bureaus or offices are involved in the so-called fight against illicit drugs? I mean, there is the Coast Guard, Customs, Justice, Alcohol and Tobacco, and the FBI.

It seems to me that one of the problems we have in this business is the fact that we have so many people involved, and that it is hard to coordinate; and the Vice President has a Special Task Force and he tries to coordinate. I don't know if you all are part of that effort or not.

Ms. WROBLESKI. We are.

Senator KASTEN. How many different agencies are part of this overall effort, do you have any idea?

Ms. WROBLESKI. The Attorney General, by statute, serves as Chairman of the National Drug Enforcement Policy Board, and he has been a very active chairman in the short 6 or 8 months that he has been chairman. This is a cabinet-level board.

Those departments that sit on NDEPB give you a range of who is involved in the drug fight: Secretary of the Treasury; Secretary of Defense; Attorney General; Secretary of State; Secretary of Health and Human Services; Secretary of Transportation; the National Security Adviser to the President; and the Director of the Central Intelligence Agency.

So I think there is evidence that, across the Government, we are concerned both with demand reduction and the supply reduction on the international front and at home.

Senator KASTEN. That is the flip side of that, though. Is that everybody? It seems to me there are an awful lot of different people trying to do something. Aren't you all bumping into each other all the time?

Ms. WROBLESKI. I would say the coordinating mechanism provided by the National Drug Enforcement Policy Board, with the Attorney General as chairman, is working well. The board meets on a regular basis. The coordinating group on which I sit, which includes the lending law enforcement agencies, meets on a monthly basis. That board also includes the Vice President's office.

Senator KASTEN. We will let you go back and fix the record in case you missed one. This isn't the $64,000 question.

Ms. WROBLESKI. There is a good coordinating mechanism, and we do all try to take advantage of it.

NARCOTICS CONTROL IN ECUADOR

Senator KASTEN. You mentioned Ecuador. I believe our narcotics control program in Ecuador is an unusual opportunity to do a lot of good. It is for a relatively small amount of money. Ecuador is not, at least so far, a hotbed of coca production. It could be.

President Cordero is committed to freeing his country of illicit drugs. The situation is not so grave that it can't be done. You mentioned this in your testimony, but is $845,000 enough of a response to the Govern-

ment's commitment in Ecuador? Isn't that a low number in terms of the forthright statements made by the President of Ecuador in terms of wanting to work with us?

Ms. WROBLESKI. I think not. I think that $845,000 meets our proportional need. Our budget went up in 1986 to $940,000 in Ecuador from a 1985 figure of a little over $400,000. As you mentioned, the commitment of the Government, particularly the strong commitment and leadership displayed by President Cordero, leads me to believe that if we put money into a program in Ecuador this year and next year, it can help them to realize some gains against coca eradication, as you point out, before production gets out of hand.

I think it is a good opportunity for us to spend what is not a little bit of money, but I guess in terms of the overall foreign assistance budget it is a little bit of money, and help out someone who wants our help and has asked for our cooperation in the hopes that down the road, we will not need a $10 million program in Ecuador.

Senator KASTEN. Do you think this is enough?

Ms. WROBLESKI. I think so.

Senator KASTEN. We are going to look forward to reviewing that with you as we go through the steps.

GRAMM-RUDMAN CUTS

One final question about Gramm-Rudman. The International Narcotics Control Program was cut $2,474,000 in 1986 under the formula Gramm-Rudman reduction. How did you absorb this cut? Where did you make your savings?

Ms. WROBLESKI. We determined that we would not touch the program in Mexico, or our program in Colombia, or our central program development and support. Therefore, we took across-the-board cuts in all of our other programs. I think that we were able to set aside those two very key programs for very obvious reasons.

But it has meant, for instance, in Burma, that we will not be able to buy an extra eradication aircraft for that program.

SUBMITTED QUESTIONS

Senator KASTEN. We have got several other questions which I would like to submit to you for the record, and let me thank you for your testimony. We look forward to working with you. As I say, we will follow some of these particular countries through that we have some questions on. We look forward to working with you.

Thank you for your testimony.

Ms. WROBLESKI. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

RESISTANCE BY TRAFFICKERS

Senator Kasten: Is it true that in some areas of the Andes, the drug industry is better armed than the government enforcers?

Miss Wrobleski: I have heard that Roberto Suarez, the Bolivian narcotics trafficker, has made such a claim and there are localized areas in Bolivia, Peru and Colombia where the traffickers have armed control. These areas are remote, isolated from both major population centers and concentration of government forces, and are favored by traffickers for these reasons. In some if not many cases -- for example in the eastern llanos of Colombia -- these areas are infested with heavily armed insurgents who are themselves often involved in the drug trade. Government anti-narcotics forces can run into stiff resistance and may need additional arms and equipment to overcome that resistance. We are attempting to provide help where it is needed and where we believe it can be used effectively. Overall, however, the preponderance of force is with the Andean governments; the problem is applying their effects and resources with skill and determination, supported as necessary by outside help.

ROLES OF INTERDICTION, PUBLIC AWARENESS, DEVELOPMENT AID

Senator Kasten: To what extent are interdiction and public awareness, and the development of alternate sources of income necessary for the success of eradication?

Miss Wrobleski: Eradication, interdiction and public awareness are all essential elements in our international narcotics control strategy. Eradication is seen as the most effective point of attack in controlling narcotics drugs because it eliminates the drugs from circulation and breaks the first link in the grower-to-user chain. The success of an eradication effort, however, depends on a government's willingness and ability to enforce eradication measures. Often, governments must offer incentives to farmers not to grow narcotic crops. As a matter of policy, we do not approve of compensation for the elimination of illegal crops. But, we believe it is sometimes necessary to assist governments in offering to develop alternative sources of income for regions where narcotic crops are being eradicated. A strong public awareness program serves to reinforce public opinion about the illegal nature of narcotics cultivation, while providing information on the dangers of drug abuse and trafficking.

ERADICATION IN PERU, BOLIVIA AND COLOMBIA

Senator Kasten: What progress is being made in Bolivia, Peru and Colombia in the eradication of coca? Please be specific.

Miss Wrobleski: Little progress is being made in eradication of coca in Bolivia. there was no eradication under the 1983 agreement prior to the final quarter of 1985. During the six months since the initiation of the voluntary eradication program, approximately 130 hectares have been eradicated. This small amount was achieved sporadically. In an effort to get a meaningful

eradication campaign underway, the Embassy has entered into an agreement with Bolivia for the eradication of 500 hectares at a rate of 25 hectares a week. Eradication at this level is a step toward establishing more rigorous goals for 1987. At the same time, State is preparing to assist the Embassy in negotiating a new program agreement, with new goals, for 1987 and onward, based upon a new national plan for coca control which Bolivia is agreed to develop.

As reported in the INCSR, coca eradication in Peru in the past three years has been 703, 3134 and 4823 hectares. This is all manual eradication carried out by the Peruvian organization CORAH in the Upper Huallaga Valley. Through April of this year, 1117 hectares have been eradicated as compared to 183 hectares in the comparable period last year.

Colombia eradicated about 2000 hectares of coca in 1985. In January of this year backpack spraying of coca with herbicide was intensified in the growing area near the Guaviare River. Experimental aerial spraying is also being conducted in the same area, but results still do not warrant full-scale aerial spraying. Total eradication through May has amounted to 214 hectares as compared to 786 in the same period last year.

THAILAND BORDER SECURITY PROJECT

Senator Kasten: You are requesting $2,100,000 for the narcotics enforcement assistance program in Thailand. Of that amount you are requesting $500,000 for "commodities" and $1,300,000 for "other costs" associated with border security.

What commodities would these funds purchase, and can you be more specific in your request for $1.3 million for "other costs?"

Miss Wrobleski: The Border Security Project was initially funded in FY 1982. Commodities procurred during the early phases of the project are increasingly in need of replacement. In particular, we are projecting a substantial need for the procurement of both replacement and new vehicles in FY 1987. There will also be an ongoing need for procurement of operational support commodities such as troop uniforms and other personnel field equipment.

Funding requested under "other costs" ($1.3 million) will be used to provide salaries and subsistence for 545 project personnel as well as allowances for medical support, transportation, administrative support, intelligence collection, and personnel training. Actual expenditures for each of these categories are difficult to project precisely since they are linked to Baht/Dollar exchange rates. Overall, however, approximately three-quarters of the "other costs" funding has gone for salary and subsistence support with the remaining funding being spread over the other categories noted above.

ERADICATION IN PERU

Senator Kasten: In your justification material for the coca production control program for Peru, you say that success of the eradication program will depend heavily on related enforcement

activities of the Guardia Civil's Mobil Rural Patrol units. And that "it is anticipated that during FY 1986 a second major eradication program will be initiated in Peru, most likely in another area of the Upper Huallaga Valley."

This second major eradication program sounds rather vague. Is this because of anticipated security problems, or are you just unclear of what areas of the Upper Huallaga Valley you will attempt to eradicate?

Miss Wrobleski: When the budget presentation was prepared the anticipation was that a second front would be established. Instead of a separate eradication front, CORAH has doubled its forces, but kept them operating together, i.e., it broadened the existing front. Last year eradication was centered on an area north of the town of Tingo Maria; this year it is taking place southwest of that major market town in the Upper Huallaga. Security is still a definite problem in the area. Violence and threats of violence forced CORAH to abandon, at least for the present, moving into the Progreso area, where there is a large concentration of illicit coca cultivation.

Senator Kasten: You are asking for an increase from $1.1 million to $2 million for this particular aspect of the Peru program because increased costs are "expected" for this "anticipated" program. Shouldn't we come in with a supplemental request for this program next spring, when you have a better idea of where this program will take you?

Miss Wrobleski: As I mentioned, CORAH has already doubled its eradication effort, so we are in effect spending at a rate that will necessitate the amount which we have asked for.

DRUG PREVENTION IN PERU

Senator Kasten: I notice you plan a new program of "drug prevention and education" for Peru in FY 1987 (Request: $100,000). How is this different from the "public awareness support" under program development and support in FY 1986?

How successful have these education programs been in South America? Have they made a difference?

Miss Wrobleski: The new program of "Drug Prevention and Education" for Peru for 1987 is a continuation of the "Public Awareness Support" under Program Development and Support in FY 1986. It is cited as a separate project in recognition that public awareness of the drug problem is a sine qua non to effective drug control policies in Peru as well as in other countries in South America.

It is difficult to evaluate the degree of effectiveness of these education programs to date, but we believe that a gradual shift in public opinion, influenced partly by our public awareness programs, was an important factor in the ability of President Betancur to launch an all-out attack against traffickers in Colombia.

BOLIVIA PIPELINE FUNDS

Senator Kasten: You had quite a sizeable "pipeline" in the Bolivia program from FY 1986. Are there still funds in the pipeline for Bolivia? If so, how much?

Miss Wrobleski: As of March 31, 1986, the following prior-year funds were available for subobligation:

FY 1985	$46,000
FY 1984	$481,000
FY 1983	$113,000*
	$640,000

*1983 and prior years

ACTIONS IN BOLIVIA'S CHAPARE REGION

Senator Kasten: Can you bring us up to date on the current situation in the Chapare region of Bolivia? The U.S.-trained police force in that area was surrounded by irate coca farmers and held immobile for days. First of all, it is obvious that the police force is not in control of the area. Have the police gone back into the area?

Miss Wrobleski: The incident you refer to took place in early January. The UMOPAR were restricted but never left the area. After a week the campesinos lifted their blockade of the police unit, which resumed its duties.

Senator Kasten: It was reported that this incident was precipitated by a rape of a local woman by members of the police force. Is this true? If so, has disciplinary action been taken?

Miss Wrobleski: According to information I receiv- ed from the advisor assigned to the UMOPAR, the press reports did claim that a local woman had been raped by UMOPAR troopers. The American advisor believes that the incident was contrived. The woman was not a minor, nor a Chapare resident, nor, according to this report, was she raped. She was from Santa Cruz, and never filed charges against the troopers. The two troopers involved were sent to Cochabamba for detention, but when the woman did not appear, they were returned to normal duty.

Senator Kasten: Coca is openly bought and sold in the Chapare area. What progress has been made there? Besides small raids on Campesinos' crops, what else can we expect this police force to accomplish? The real problem is with the judicial system--the big fish continue to get away. What progress is being made there?

Miss Wrobleski: I am by no means despairing about UMOPAR. In spite of campesino protests and blockades, bureaucratic inertia, endemic corruption, and an intense press campaign against the National Police, the unit is currently complying with the mission for which it was established. That mission is to establish a permanent police presence in the Chapare to inhibit and restrict trafficking in coca and its derivatives. The Unit now numbers 400

men and according to our Embassy in La Paz has the most capable and honest leadership since it was founded in 1984. In the first four months of 1986 it has seized almost 700 kilograms of coca paste and made almost 300 arrests.

EFFECT ON ECONOMIES

Senator Kasten: Is the drug industry largely in control of the economies of any substantial Andean areas?

Miss Wrobleski: There is no substantial Andean area that I would unequivocally characterize as being largely under the political control of the drug industry. However, your question refers to controlling the economies of any areas. Since the economic activities of areas such as the Chapare in Bolivia and the Upper Huallaga Valley of Peru are heavily based on illicit narcotics, the drug industry could be said to be in control of the economies of those areas. The basic problem is that the writ of the central governments in the Andean countries does not necessarily extend throughout the national territory. Bolivia and Peru especially do not have the material and institutional infrastructure to control the more remote parts of their territories. Not surprisingly, traffickers tend to concentrate refining sites in areas not easily subject to government control. The major areas where coca is grown for refining into cocaine are also remote and difficult for government security forces to operate in, and are therefore also vulnerable to influence or control by traffickers.

GLOBAL ERADICATION PROGRAM

Senator Kasten: On page 3 of your testimony, you state that since 1985, 14 countries were eradicating illicit narcotic crops. Can you tell us who those 14 countries are, and how many hectares have been eradicated in each country. Please compare this to how many hectares you project are planted in illicit crops.

Miss Wrobleski: We are providing the following table, which is drawn from data contained in our 1986 International Narcotic Control Strategy Report (INCSR).

NARCOTIC CROPS: HECTARAGE CULTIVATED/ERADICATED

The fourteen countries were: Belize, Bolivia, Brazil, Colombia, Costa Rica, Ecuador, Jamaica, Mexico, Panama, Peru and Venezuela in this hemisphere, and Burma, Thailand and Pakistan.

The following information, abstracted from the 1986 International Narcotics Control Strategy Report, shows that in the vital category of net amounts available for illicit production, there has been year to year improvement in most countries. The notable 1985 exceptions among countries where the United States supports control programs are Bolivia and Mexico, and of course Iran, Afghanistan and Laos where the political situations do not permit control programs. Note that in 1986 Pakistani opium production increased, a disappointing reversal after several years of declining production; Pakistani officials have declared that the problem will be effectively addressed during the 1986-87 growing season.

Cannabis

Country	1985 Cultvte	1985 Eradicate	Net	1986 Estimate	1986 Eradicate	Net	Change
Belize	1,223	512	711	1,285	1,092	193	-518
Colombia	8,000	6,000	2,000	5,000	4,500	500	-1500
CostaRica	136	45	91	139	46	93	+2
Mexico	5,863	2,945	2,918	N/Avail			
Panama	500	210	290	400	300	100	-190
Jamaica	2,365	955	1,410	2,365	1,065	1,300	-345
Venezuela	400	400	0	0			

Opium

Burma	71,000	9,551	61,449	75,000	25,000	56,000	-5449
Laos	11,000	Unknown		11,000	Unknown		
Thailand	9,654	517	9,137	6,325	2,800	3,525	-5612
Afghan	44,400	Unknown		44,400	Unknown		
Iran	44,400	Unknown		44,400	Unknown		
Pakistan	1,878	90	1,788	7,490	2,956	4,534	+2746
Mexico	6,107	2,945	3,162	N/Avail			

Coca

Country	1985 Cultvte	1985 Eradicate	Net	1986 Estimate	1986 Eradicate	Net	Change
Bolivia	34,250	30	34,220	32,243	N/Avail		
Colombia	15,500	2,000	13,500	14,000	10,000	4,000	-6000
Ecuador	2,886	464	2,422	2,422	1,000	1,422	-1000
Peru	100,000	4,823	95,177	96,831	6,000	90,831	-6000
Brazil	(see footnote)						

(Note 1: Brazil has not conducted gross surveys of production, nor does it report eradication in hectarage. Instead, Brazil reports destruction in 1985 of 491 metric tons of coca leaf and 1,375 metric tons of cannabis.)

(Note 2: We have appended to this response a summary report from INM on performance measures.)

UNITED NATIONS FUND FOR DRUG ABUSE CONTROL CONTRIBUTIONS

Senator Kasten: How do European contributions to the UN Fund for Drug Abuse Control compare to those of the United States?

Miss Wrobleski: Although the United States has been the single largest contributor to UNFDAC on an annual basis, several European countries provided significantly large contributions to UNFDAC in 1985 for use in specific countries and regions. Italy's 1984 pledge of $40 million to UNFDAC for use over a five-year period in the Andean region is now being used for projects in Bolivia, Peru and Colombia. In support of UNFDAC's project in the Dir Province of Pakistan, commonly referred to as the Special Development and Enforcement Project (SDEP), several countries pledged new contributions in 1985. Italy is contributing $2.5 million, the

United Kingdom has pledged $5 million, Canada has pledged $800,000 and the Netherlands has pledged $2.7 million. Other major contributors to UNFDAC are Norway, Sweden, and the Federal Republic of Germany.

Senator Kasten: You are requesting an increase from $2,605,000 to $2,900,000 for the United Nations Fund for Drug Abuse Control. What would this increase be used for?

Miss Wrobleski: Each year INM requests funds to provide to the United Nations Fund for Drug Abuse Control as a voluntary contribution. The Department of State develops with the International Organization Bureau a worldwide inflation factor that is applied to the base amount. A level of nine percent was used to increase the contribution by approximately $235,000 to cover international inflation and $65,000 to provide support the the 1987 World Conference on Narcotics planned for June 1987.

OPIUM POPPY ERADICATION IN BURMA

Senator Kasten: Your justification material states that because of successful tests on aerial eradication of opium poppies, Burma has expanded aerial eradication in the 1985-1986 growing season. Can you tell us how many hectares of opium have been eradicated so far?

Miss Wrobleski: Burma's 1985-86 aerial eradication program began on December 30, 1985, and ended February 22, 1986. Using three U.S.-provided Thrush fixed-wing aircraft flown by nine INM-trained Burmese pilots, Burma reported spraying an estimated 24,000 acres of opium poppy; another 9,000 acres were eliminated through manual eradication.

Estimates of acreage sprayed in operations using Thrush aircraft are based on ratios of aircraft speed and herbicide flow rates. The aircraft are equipped with Micronair flow rate computers which are the standard for area calculations in the U.S. agricultural aviation industry. This was supplemented by Burma Air Force pilot reports.

Beyond the hectarage, the initial year's program provided a good foundation for an expanded spraying effort in future years.

Senator Kasten: How many hectares do you estimate are planted in opium poppies?

Miss Wrobleski: We estimated that approximately 75,000 hectares were planted in opium poppy in the 1985-86 season.

Senator Kasten: You plan a greatly expanded program for FY 1987. How many hectares do you plan to eradicate in the 1986-1987 growing season?

Miss Wrobleski: Burma's expanded aerial eradication program this year includes two additional INM-funded Thrush aircraft and six more INM-trained pilots. Burma plans to begin spraying earlier this season than last, which will also contribute to the program's overall effectiveness.

Neither we nor the Burmese want to set specific acreage goals. The Burmese have committed themselves to an all-out effort, and we intend to provide the support needed to acquire the necessary equipment.

LATIN AMERICAN REGIONAL FUND

Senator Kasten: Can you give us some more detail on how the $5,000,000 transferred into the Latin American Regional Fund in FY 1986 was spent? Judging from your $4,000,000 request for this program in FY 1987, it has been a success.

Miss Wrobleski: Based on a very successful interregional operation between Colombia and Peru last fall, called Operation Condor, and based upon successful intelligence gathering within Colombia, INM decided to allot $3.5 million of the total $5.0 million to Colombia and obligate the funds through a bilateral letter of agreement. Designed to provide a regional air transport capability for narcotics control operations within Colombia and in neighboring countries, this agreement allows the Colombian government to procure three used medium lift Bell 212 helicopters (capable of transporting up to 12-15 personnel) and one fixed-wing personnel transport craft to be used in specialized, regional narcotics interdiction operations. No final decision has been made yet on the remaining $1.5 million, although serious consideration is being given to purchase of helicopters for Jamaica (used) and Ecuador to allow enforcement agencies to mount mobile eradication operations and/or providing sufficient funds to upgrade a fixed-wing spray aircraft to be used in Central America, e.g., Belize, Panama, Guatemala.

ERADICATION IN BOLIVIA

Senator Kasten: Your goal for 1986 and 1987 is to eradicate at least 4,000 hectares in Bolivia. To date, how many hectares have been eradicated?

Miss Wrobleski: The Bolivians have eradicated 130 hectares in the past six months. We set no goal for eradication in Bolivia in the 1986 INCSR for calendar years 1986 or 1987. The 4000 hectares goal, which was set forth in our 1983 agreement with Bolivia but was not achieved, was for the two years ended in August 1985. We are preparing to negotiate a new program agreement for 1987, consistent with the national plan for coca control which Bolivia must develop as a further condition for receiving U.S. economic assistance. In the interim, we have recently concluded an agreement with the Bolivian Government to eradicate 500 hectares at a rate of 25 hectares a week.

COOPERATION BETWEEN MILITARY AND POLICE FORCES

Senator Kasten: Rental of military equipment by local narcotics police forces is expensive. In addition, the military is often less than cooperative (for various reasons). What can we do to foster more cooperation between military and narcotics police forces?

Miss Wrobleski: In implementing the provisions of Section 481 of the Foreign Assistance Act, the State Department is empowered to enter into cooperative arrangements with foreign governments to control the production, transit, trafficking and abuse of illicit narcotics. We contract with some civil government agencies, some military, the situation varying by country, depending on each country's political structure, economic situation and the viability of its relevant organizations. For example, in Burma, the bilateral control program is implemented by the Burmese air force. In Ecuador, the agreement calls for rental of military transport equipment (e.g. helicopters) at a cost of $850-$1200 per hour to move eradication personnel to the growing sites. In Colombia, we work directly with the National Police, a 70,000-person paramilitary force in the Ministry of Defense but separate from the army, navy and air force. (We worked closely with the Colombian military organizations in FY 1980 and FY 1981, before the GOC decided to create the Special Anti-Narcotics Unit in the National Police). We work directly with the Mexican Attorney General's Office (civilian portion of the government) but the military are present and active in manual eradication in the growing zones.

While rental of military equipment by local narcotics police forces can be expensive, this approach is less expensive than providing costly and difficult- to-maintain air assets to civilian branches of many Latin American governments. Moreover, our recent experience has been that the narcotics issue has come more to the forefront as a politically destablilizing force and a real threat to the democratic institutions in Latin America. Accordingly, the governments are more willing to marshal their military assets to work closely with the police agencies, and this cooperation will increase in proportion to this threat. For example, the inter-regional Operation Condor between the Peruvian and Colombian police utilized military assets. Additionally, INM can continue to provide resources on a limited basis to encourage the military to assign narcotics control a higher priority, e.g., paying the operational support costs for the military in Bolivia to go into the Chapare prior to UMOPAR (national police) entering the region in August-September 1985; rental of military helicopters in Ecuador to mount manual eradication campaigns, etc.

ERADICATION IN COLOMBIA

Senator Kasten : In March of last year you were hopeful that Colombia would have eradicated the majority of its marijuana crop in 1985. You went on to tell us about Colombia's aerial spraying program. This program has been going on now since late 1984.

Can you tell us how effective the aerial spaying program has been? Your justification material states: "The Government of Colombia plans aerial eradication of some 8,000 hectares of illicit coca cultivation in FY 1987 if the FY 1985/86 herbicide testing program proves effective." By now do you have preliminary judgments about this program? Will you have a formal analysis of this program before you proceed further?

Miss Wrobleski: When we discuss aerial spraying, we need to distinguish the campaign against cannabis, where there are effective herbicides, from that against the coca bush, where no herbicide has

been identified and fully tested as effective and environmentally safe.

The herbicide testing program against coca has not yet justified moving toward full-scale aerial eradication. We do not therefore expect to eradicate the 8000 hectares contemplated when we drew up the FY 1987 budget. Most of the eradication of coca in 1986 will be done on the ground, either manually or by the direct application of herbicide from backpacks, which have been more effective applications than aerial to date, and until a herbicide is proven effective from the air, the coca eradication program may continue to emphasize ground applications well into 1987. We are working with American and Colombian agricultural research scientists on further steps tc achieve successful aerial eradication of coca.

The campaign against cannabis has been very effec- tive: over 85 percent of the cultivation in the trad- itional North Coast growing area was eliminated in 1985; we further estimate that about 67 percent of all marijuana cultivation was eliminated through eradication and/or seizure in 1985. From survey and reconnaissance conducted earlier this year, we have evidence of in- creased plantings outside of the former principal grow- ing areas. In response, Colombia is taking steps to shift some its spray aircraft and supporting equipment and personnel to these newer areas. Cannabis eradi- cation in the first five months of this year amounted to 376 hectares as compared to 869 in the same period a year ago, reflecting lower cultivation on the North Coast

ASSISTANCE TO COLOMBIA

Senator Kasten: Of the $9,200,00 requested for narcotics control assistance for Colombia in FY 1987, how much is requested specifically for the aerial spraying program?

Miss Wrobleski: Our original proposal was that $4 million would be needed for herbicides and $1.5 million would be spent to acquire two additional fixed-wing spray aircraft. Related costs would bring the aerial spray campaign total over $6 million. However, unless there is a breakthrough on the herbicide testing for coca, I would not now anticipate so large an expenditure on herbicides. There will be offsetting costs, however, including more reliance on backpack spraying and field testing of coca eradication in other sites.

Questions Submitted by Senator D'Amato

COCA CONTROL IN BOLIVIA

Senator D'Amato: It is my understanding that Bolivia earlier this year mounted a successful law enforcement initiative: they interdicted large quantities of coca paste. As a result, the traffickers slowed down their activities, supplies of coca paste backed up, and the price of raw coca dropped significantly. This made it less profitable to farm coca. What is INM doing to support more interdiction and law enforcement efforts like this, as opposed to simple eradication?

Miss Wrobleski: All of UMOPAR's operational expenses and equipment purchases (except for weapons) are funded by INM. The Embassy has been involved closely with the Bolivian National Police on the development and implementation of the interdiction strategy. In accord with P.L. 98-164, we are working with the Bolivians, through our Embassy, on development of a new coca control plan and new program agreement for 1987. In anticipation of that plan including a broader enforcement program, we have proposed increasing our enforcement assistance from $1.3 million to $2.0 million, the same amount we plan to spend on eradication in 1987.

Senator D'Amato: To what extent is Bolivia enforcing the laws to control coca production passed last May?

Miss Wrobleski: The Narcotics Law was promulgated by decree in May, 1985, and has the force of law. The Bolivian Congress is considering supplemental legis- lation. We have studied the May decree, and, in January 1986, President Reagan certified to Congress that the decree meets the requirements of P.L. 98-164, and pro- vides the legal basis for an effective anti-narcotics program. Especially important is the provision estab- lishing definitions of illicit coca planting and out- lawing such cultivation. We therefore think it impor- tant for Bolivia to move ahead on implementing the May decree; adopting the decree's provisions in Congress- ional (Bolivian) legislation would give its provisions greater moral weight, but would not change the legal requirements. Enforcement activities are being carried out under the May decree, but there has been no action yet on the key step of declaring coca cultivation illegal in areas where it is grown for conversion to cocaine.

ESTIMATES OF MEXICAN PRODUCTION

Senator D'Amato: Why do we not yet have reliable estimates for Mexican opium and other drug production for 1985? When will we have such estimates?

Miss Wrobleski: As noted in our International Narcotics Control Strategy Report, submitted to Congress in February, there has not been a firm empirical base for Mexican crop estimates for 1985 and previous years. The best method for generating such data is a crop survey. Earlier this year, following discussions with the Mexican government, aerial photography flights of key opium growing regions in Mexico were conducted by a U.S. contractor, which should begin to fill in some of the data blanks regarding opium crop production. Mexico is large and resource limitations preclude saturation photography of the entire country. Nonetheless, the February survey and projected follow-on strategically-selected random sample surveys of opium and marijuana cultivation should permi more precise estimates of total crop cultivation and eradication levels, and thus of crop production/yield.

CURRENT SITUATION IN MEXICO

Senator D'Amato: What is your assessment of the current drug trafficking situation in Mexico?

Would you comment on this statement by the Commissioner of Customs, quoted in yesterday's Washington Post:

"Mexico is a serious national security concern. If law enforcement can be so easily bought by drug smugglers, it can just as easily bought by terrorists."

Miss Wrobleski: As I previously noted, increasing drug trafficking activity in Mexico is a major concern of my Bureau, as it has been for some time. Mexico has long been a major producer of narcotics as well as a transit zone for U.S. bound narcotics from other countries, and the fight against the traffickers requires a strong, continuing effort. International narcotics trafficking generates enormous amounts of money, and it has greatly contributed to corruption in Mexico, as it has in every other country touched by narcotics trafficking. This is clearly recognized as a problem by both governments. The magnitude of the problem should not, however, discourage us from continuing to explore all options to attack narcotics production and shipment, using all available resources. The Mexican government calls their narcotics control program the "Permanent Campaign Against Narcotics", accurately reflecting the fact that this must be an on-going, extended effort. Every weakness by government agencies and programs has been and will be exploited by the traffickers. We intend to continue to closely work with the Mexican government to counter these efforts, and reduce narcotics production and trafficking levels.

(Note: Appended to this response is a press guidance statement on Mexico, issued by the Department of State.)

PRESS GUIDANCE: MEXICO

The issue of Mexican-U.S. cooperation in the area of narcotics control is a critical foreign policy and law enforcement question. The killing of DEA agent Enrique Camerena last year, and the slow pace of the subsequent Mexican investigation have caused the U.S. and Mexican parties responsible for narcotics control to reevaluate the scope and direction of the Mexican program. The Camerena killing brought to light some of the problems which had been plaguing the Mexican program since the early 1980's and the revelations of corruption, inefficiency and flaws in the eradication program have been directly linked to the increasing amount of Mexican narcotics coming into the United States.

Problems with the Mexican narcotics control program are difficult but not insurmountable. Critical to success in the Mexican program are an increased commitment by the Mexican Government to total marijuana and opium eradication, more efficient use of herbicides and equipment in eradication efforts, rooting out corrupt officials benefitting directly and indirectly from the narcotics trade, and a more forthcoming attitude on major narcotics investigations such as the Caro Quintero prosecution.

We remain concerned about continued delays on bringing suspected Mexican narcotics traffickers to justice. Continued charges that reputed traffickers are receiving preferential treatment from Mexican Governmnent officials undermine the Mexican

Government's commitment to eliminating narcotics trafficking and production and call this commitment into question.

As a result of the recent law enforcement summit meetings between Attorneys General Meese and Garcia-Ramirez, several encouraging steps have been agreed to. Coupled with a number ongoing Mexican-U.S. initiatives, these summit achievements portend well for improved conditions in the Mexican narcotics program.

These achievements include:

---The Mexican Government has agreed to more stringent eradication monitoring and verification.
DEA personnel accompany MAGO personnel on verification flights to ascertain that eradication reporting is accurate. The Mexican Government and the U.S. are working to recondition a Bell 212 helicopter for dedicated use in the verification program.

---The successful completion and current analysis of an aerial survey to accurately assess the extent of opium cultivation in high incidence areas Mexico. The results of the this survey will be completed during the next two months.

---Agreement by the Mexican Government to improve the GOM's spraying capability by reintegrating Bells 212's as a spray ship, by utilizing the fixed wing Turbo Thrush and by improving pilot progress. Mexico's aim is to improve its pilot training program and increase the amount of actual flying done by trained pilots. The U.S. has assisted Mexico in training pilots to fly eradication missions, and we continue to stress the need for competent and safe pilots.

---Adoption of a new eradication strategy by the Government of Mexico to spray all illicit fields immediately upon detection, preferably at a stage of immaturity to avoid the harvesting of those fields after being sprayed.

---An agreement to improve the efficiency of Mexican spray operations to ensure proper mixtures of herbicides, thereby increasing eradication effectiveness.

The U.S. Government will continue to work with the Mexican Government in the belief that cooperation and joint activities can and will result in the decrease of Mexican narcotics. Our immediate goal is to improve the Mexican program and regain ground that was lost during the beginning of this decade and from there further increase our vigilance and cooperation to ensure that there is no future backsliding in the Mexican program. It is in the interests of both our countries to succeed in the area of narcotics control.

COMBATTING CORRUPTION

Senator D'Amato : What progress -- if any -- is Mexico making to combat corruption among its police, customs agents, and government officials?

Miss Wrobleski: Since the murder of DEA agent Enrique Camarena

in February of last year, the Mexican government has undertaken investigations that have revealed widespread corruption within enforcement agencies. Many arrests have been made, and many more officials have been dismissed or transferred. These investigations continue. The general problem of corruption, and specifically problems associated with Agent Camarena's murder, have been the subject of frequent discussions between U.S. and Mexican officials. The Camarena investigation, for example, has been a prominent agenda item in several meetings between AG Meese and Mexican Attorney General Garcia. It is impossible for me to make predictions about the course of future investigations or court actions; however, I can assure the Committee that I will continue to closely monitor the Camarena investigation and Mexican government efforts to combat narcotics related corruption, and that our concerns will continue to be discussed in meetings between officials of the two governments.

Senator D'Amato: Do any of the Countries in which INM programs operate have significant anti-corruption efforts under way?

Miss Wrobleski: In Asia, the governments of Burma and Thailand have stated policies to fight corruption. In Latin America, the government of Peru under President Alan Garcia has instituted and enacted an anti-corruption campaign. In the fall of 1985 more than 1,500 police officials were removed or retired from service.

MEXICAN COOPERATION

Senator D'Amato : What effort is INM making to obtain better cooperation from Mexico for our Customs Service and DEA?

Miss Wrobleski: Although my Bureau's emphasis is on crop eradication programs in Mexico, I do not view our eradication efforts in isolation of other needed components of effective narcotics control, including effective enforcement and border interdiction programs. Our personnel work closely with DEA personnel and the Customs representative in Mexico to achieve the most effective narcotics control results possible. In Mexico, as in all other key countries, we view narcotics programs as a "Country Team" effort under the general coordination of the post Narcotics Coordinator. A good example of a success achieved by these efforts in Mexico is the implementation of an "Independent Monitoring Program" that includes the participation of DEA personnel in Mexican reconnaissance and verification flights.

In all major discussions with the Mexican government regarding law enforcement, the agenda always includes a range of issues of importance to all agencies. In the April "Law Enforcement Summit", for example, the agenda was defined to address all important areas of discussion, and Attorney General Meese invited the participation of all agencies. These discussions have been useful and productive, and have significantly contributed to improved cooperative efforts.

BUDGET FOR MEXICO

Senator D'Amato: What programs in Mexico will the additional $1.21 million INM is requesting support?

Miss Wrobleski: In FY 1987, INM has requested a total of $11.3 million or an increase of $1.2 million over the FY 1986 Congressionally approved amount. The entire increase is attributable to increased maintenance and overhaul costs incurred by a significantly larger eradication fleet. In FY 1986 (late 1985), the spray fleet was increased by nearly 33% or an addition of 14 Bell 206 helicopters. Given the aging condition of the fleet, planned increased utilization, and increased numbers of air assets, the Serv-Air contractor has estimated that between $9 and $10 million will be required to maintain the fleet for a period of 12 months.

NON-ERADICATION PROGRAMS

Senator D'Amato: As enormous crops of illicit drugs are continuing to be produced, what initiatives are you planning outside the area of eradication?

Do you, for example, have any plans (in addition to the U.S. contribution to the U.N. program you mention on page 8 of your testimony) to increase support for drug-education programs in drug-producing countries?

Miss Wrobleski: INM recognizes it is imperative that the majority of countries in which drugs are produced and trafficked are less-developed, and that both the governments and societies of these countries must be involved in the support of effective policies and programs to curtail availability of illicit drugs.

In many cases, however, public attitudes, formed on the basis of inaccurate and/or inadequate information, either ignore the threat drug trafficking poses or tacitly support drug trafficking on the basis of the following perceptions, some inaccurate, some spurious:

- Drug production benefits farmers who previously lived at a minimum subsistence level.
- The drug trade brings hard currency to poor economies.
- Only developed countries can "fall victim" to drug abuse; less-developed economies are "buffered" by their economic debility.
- Drug production doesn't really harm anyone (especially common is the view that cocaine is not a health problem.)
- The developed countries don't want to take steps against their consumers, therefore they want less-developed countries to wage war against vulnerable farmers; instead, it is argued, the developed countries should pay huge sums to ensure no loss of income to farmers.
- Steps taken against the profitable drug trade will cause irreversible political turmoil.

The attitudes base on these entrenched perceptions lead, at best, to apathy and, at worse, to rejection of arguments that

illicit drug production and trafficking must be halted. To counter these views, the Bureau of International Narcotic Matters (INM), the United States Information Agency (USIA) and the Agency for International Development (AID) have cooperated extensively in programs to educate societies to recognize the full range of social costs which they pay by permitting unchecked production and trafficking. These agencies will continue to press drug education programs in the future.

Our support is not limited to funding. We will also work directly with host country governments, non-governmental organizations, international bodies, and philanthropic organizations to greatly broaden the base of economic and human resources available to participate in public awareness campaigns; and train government officials in the design and conduct of such campaigns.

Results from drug-education programs do bear fruit, but the changes are not likely to be immediate. Although changing social attitudes is a long-term process, we have an advantage: the deleterious effects of the drug trade are increasingly evident and momentum is building among important public and private sectors of many countries including Thailand, Pakistan, Colombia, Peru, and Ecuador.

Questions Submitted by Senator Specter

CUTOFFS OF AID

Senator Specter: Section 527 of the Appropriations Conference Report on the Continuing Resolution for FY 1986 requires the President to cut off foreign aid to any major drug producing country which, in the President's view, has made inadequate progress in reducing its drug crops. In the Administration's FY 87 foreign aid request, as in its FY 86 request last year, six countries that have failed agains to meet State Department targets for production, including Belize, Colombia, Peru, Mexico, Pakistan and Thailand, will receive additional foreign aid. Furthermore, a recent article in the Washington Post ("Rio Grande: Refuge Line for Drug-Moving Army" 4/21/86) quotes U.S. Customs Commissioner William Von Raab saying that part of the Texas border with Mexico is a "modern day horror story" in terms of the facility with which drug traffickers from Colombia can penetrate our border. What is being done to concentrate national resources to fight this problem, and why has the Administration apparently decided that adequate progress was made in reducing the drug crops in these six countries?

Miss Wrobleski: These are really two separate questions. As to the concentration of resources, this Administration has taken several strong actions. First, we have strengthened our eradication and in-country interdiction programs, and, for example, have reduced Colombian marijuana production by 67 percent in 1985. Second, we have stepped up our interdiction actions in the Carribean; the latest data on Operation Hat Trick shows that, for a second year, we have successfully marshalled our air and sea resources to crimp narcotics traffic from South America. Third, we are expanding our

interdiction efforts at our borders and immediately beyond, both through special task forces such as were announced recently by Treasury but also by making greater use of the intelligence and tracking resources of the U.S. military services.

The presumption in the second part of the question is unfortunately based on a misunderstanding of the data provided by the Department in its annual International Narcotics Control Strategy Report. The Department does not set targets per se; instead, P.L. 98-164 requires that we project probable cultivation, net yield, etc. for both the reporting year and the years that follow. These estimates are therefore based on conditions extant at the time the report is prepared, and, assuming that all of the conditions are met, then there is a reasonable expectation that actual production and yield will be within the range of the estimate. The Belize data are a case in point, illustrating the need to examine the conditions underlying the numbers. In the report published February 14, 1985, we projected (page 42) that net production would, given three highly variable conditions, fall in a range between 191 metric tons and 1,271 metric tons, and, in the data tables which follow on page 43, used the 1,271 metric ton estimate as our comparative base with earlier years. On February 21, 1986, we reported that actual production was probably 645 metric tons, well within the range of our estimate -- and in fact an estimate that did not take into account an extensive aerial eradication program conducted during the month the report was issued.

Colombia is a good example for our point that the numbers do not tell the whole story. Given that Colombia in 1985 eradicated about 67 percent of its total marijuana crop, including 85 percent of the crop in the traditional northern growing areas, while also making substantial raids on cocaine laboratories and conducting sorely needed tests on herbicides to eradicate coca bushes, any fair assessment is that Colombia is one of the real success stories of the narcotics effort in the Eighties. We had projected in 1984 that, if the chemical tests provided us with a comprehensive eradication tool, we could reduce net coca leaf production to 7,600 metric tons, from 11,080 in 1984. The process required further testing, and the manual eradication program brought the level down to 10,800 metric tons in 1985 -- an important reduction but not as steep as would have been possible if the chemical process had been available. Like Mexico, Colombia receives no developmental or economic assistance, but Colombia this year is receiving FMS.

Other than narcotics control funds, which P.L. 98-164 exempts from the sanction provision, the Administration has requested no assistance for Mexico. The report on 1985 production cautions the reader about the data; in effect, the Department and other members of the National Narcotics Intelligence Consumers Committee lacked sufficient data at the time the INCSR report was prepared to make estimates on 1985 production of opium poppy or marijuana. As explained in footnotes in the report, the Committee simply rolled over the marijuana data from 1984, and, noting a low estimate of 21 tons and a high estimate of 45 tons for opium poppy, used those extremes as an arbitrary range. We believe production of both crops increased but have not concluded final estimates.

With respect to Peru, the report states that much of the apparent increase indicated by the raw numbers is more correctly

attributed to a change in methodology. But, as the report notes, Peru came very close to meeting its commitment in terms of number of hectares eradicated (5,000 out of 6,000) and the net yield of coca leaf available for conversion to cocaine did not change significantly.

The change in Pakistan may or may not reflect an actual increase, but, as the report explains, is in this instance in large part a reflection of a change in estimation methodology. However, it should be noted that we believe opium production increased sharply for various factors (see testimony before House Foreign Affairs, May 13, 1986) in 1986.

The best estimate for Thailand for 1985 was a range of 25-35 metric tons; the actual yield was 36 metric tons, or about the high end of the projected range. What is perhaps more important is that, in late 1985, Thailand began and has since sustained a most promising eradication campaign.

The essence of Sec. 481, as amended by P.L. 98-164, is that the President, in determining whether a country has taken adequate steps to cooperate with the United States on narcotics control, shall give consideration to a number of factors, including the degree to which a country reduced narcotics production during the preceding year. There is no automatic cutoff. The Department believes that all source countries can improve their programs, and some need sharp improvement, but is not prepared at this time to recommend cutoffs, given the situations as described in the report narrative. (See attached summary.)

Questions Submitted by Senator Inouye

BUDGET SHARE FOR LATIN AMERICA

Senator Inouye: Miss Wrobleski, the country program budget in your fiscal year 1987 request includes $37.9 million for Latin America. This is about 68% of the total country budget. How does this amount compare to the allocation of 1982? Can you tell us what the allocation was then?

Miss Wrobleski: The $37.9 million requested for Latin American programs is a 260 percent increase over the $14.6 million actually obligated for Latin America in FY 1982.

Senator Inouye: Is there a trend evident in your country budget programming? That is, do you find a greater need for U.S. assistance in Latin America than in previous years?

Miss Wrobleski: Given the increased amount of cocaine and coca derivatives destined for U.S. markets, the Administration has focused more attention on Latin American programs. Illicit narcotics production has become a more serious public issue in Latin America and has raised important national security concerns for a number of governments in the region. Several governments have demonstrated their commitment to narcotics control, e.g., Colombia, Peru, Ecuador, some of the Central American countries, etc., and INM

has capitalized on these targets of cooperative opportunity and allocated increased resources to their programs.

PROGRAM STATUS AND INM BUDGET REQUEST FOR MEXICO

Senator Inouye: What is the amount of assistance in your budget for assistance to Mexico?

Miss Wrobleski: The Bureau is requesting $11,310,000 for FY 1987.

Senator Inouye: Have you found the Mexican government cooperative and supportive of U.S. assistance programs to curb the production and distribution of illicit narcotics?

Miss Wrobleski: U.S. and Mexican cooperation on narcotics control remains a critical foreign policy and law enforcement priority. Although significant problems remain, the Mexican government has cooperated with us in identifying critical deficiencies in the eradication campaign and applying remedial measures to improve the program and restore it to its former state of effectiveness. The initiatives underway include: aerial surveys of key growing zones to assess more accurately the productive capacity of selected regions; improved coordination in the verification program; more efficient spraying operations particularly at higher altitudes through integration of the fixed-wing Turbo Thrush into the fleet and reinstitution of the Bell 212 helicopters into spraying operations; training for zone coordinators in improved herbicide applications to apply the herbicides at an earlier point in the cycle thereby destroying the plants more effectively; coordinating data and increasing the exchange of information between the two governments; and reinstitution of improved aviation training to upgrade the flight safety.

Senator Inouye: What about the Mexican police? There have been some reports of involvement by Mexican officials at high levels in drug trafficking.

Miss Wrobleski: Corruption among police officials exists in every drug producing and transit country. The murder of the DEA special agent, Enrique Camarena, in February 1985 brought to light an apparent increase in the level of police corruption in Mexico and the Mexican government has indicted and jailed a number of police implicated in that crime and in narcotics trafficking. We stated in our 1986 INCSR report that the diminishing of program effectiveness was in part due to an apparent spread of drug related corruption that affected every facet of the enforcement program in Mexico and that the twin problems of corruption and inefficiencies were being addressed through a variety of measures. We believe we can work with the Mexican government to improve the program and that the GOM determination to curb corruption among the police is genuine.

STATUS OF ERADICATION

Senator Inouye: In your prepared statement, you note that, in 1981, when your bureau began its current narcotics control strategy, only two countries were eradicating illicit narcotics crops. By way of contrast, you note that, in 1985, 14 countries eradicated crops.

Does this not lend support to the conclusion that narcotics traffickers simply move on when an eradication effort is begun in the country in which they are operating?

What do your statistics show as the global production of illicit narcotics in 1981?

Has this production increased or decreased in the intervening period?

I believe the Bureau for International Narcotics Matters was established in the early 1970s. Is that correct?

Has the availability of imported illicit narcotics in the United States been reduced since the bureau was formed?

Would you say that the international narcotics control effort of the United States has been successful?

If more and more countries are producing more illicit narcotics and more of these drugs are available in the United States now than when the program began, what is the measure of your success?

Miss Wrobleski: Traffickers do indeed attempt to move ahead of eradication efforts, which is why my bureau (INM) funds eradication projects in Panama, Belize, Ecuador and Brazil -- we are trying to contain production and prevent traffickers from establishing major new export zones. However, your spread theory glosses over an important point. In considering your question in its fullest context, it is important to note that, in 1981, there was production of illicit narcotics in Thailand, Burma, Pakistan, Jamaica, Bolivia, Peru, Colombia and Mexico. Only Mexico and Burma were actively eradicating. In 1985, those eight countries as well as Belize, Costa Rica, Panama, Venezuela, Ecuador and Brazil were all eradicating illicit narcotics.

Comparisons between 1981 and 1985 statistics are difficult, because we have been refining our estimates through aerial surveys over the last two years, and have improved data bases which show that, in some instances, earlier techniques underestimated the problem. The data we do have show that foreign cannabis production for export to the United States in 1981 was an estimated 12,700 metric tons. In 1985, our data show that level had declined to 8,425 metric tons, even though more countries had become sources for marijuana production. We estimated coca leaf production for the three major Andean sources at 115,000 metric tons in 1981, compared to 148,000 metric tons in 1985, part of which is due to increased domestic use of cocaine-related products in South America. And, in 1981, we estimated illicit opium productin at 1,616 metric tons, compared to and estimated 1,475 metric tons in 1985, despite burgeoning demand in South and East Asia for opium related products. So, our data over that period show coca leaf production up, opium production down appreciably, and cannabis production down sharply.

The Bureau of International Narcotics Matters was established in 1978, by Act of Congress. There had been a Senior Advisor's office from 1972-78.

While there have been some important declines in gross production of illicit narcotics, which is the primary goal of the Bureau, it would be difficult to say that the availability of imported narcotics has reduced. Part of our problem is that worldwide production sharply exceeds U.S. demand. For example, the U.S. may consume as much as 76 tons of cocaine, and Europe another 20 tons, but, the Andean countries produce enough coca leaf to generate 296 tons of cocaine, or nearly three times as much coca leaf as is needed to supply the U.S. market. The same is true of opium production; about 60 tons of opium would produce all the heroin consumed here, yet world production is eighty times that level. The task then is to drive cultivation and production down well below the levels needed for the U.S. market, in order to see reductions in availability here.

There are indeed several measures of the success of the U.S. narcotics control program. I have had a special INM program summary prepared for your consideration (attached) which shows year to year gains in our effort, which is unavoidably long term, to reduce illicit narcotics cultivation overseas:

INM PROGRAM SUMMARY AND PERFORMANCE MEASURES

MARIJUANA

Colombia used INM-supplied aircraft to eradicate much of the marijuana cultivated in 1985. Aerial surveys confirm that the 1985 crop in the traditional northern growing areas was as much as 85 percent less than the 1983 crop. This vital eradication effort is being expanded to match traffickers' efforts to develop new sources of supply in other areas. The precedent-setting Colombia program was the capstone of efforts in several Latin American and Caribbean countries to destroy marijuana crops. Like Colombia, Panama and Belize conducted first-time aerial eradication programs, using herbicides. Jamaica initiated a long-needed manual eradication campaign to destroy both spring and fall marijuana crops. Brazil, Costa Rica and other governments also destroyed marijuana plantations.

Critical concern was focused on Mexico in 1985, a concern intensified by evidence that this once-effective opium poppy and marijuana eradication program has become less effective, and that production levels were rising for both narcotics. The indication at year's end was that Mexico was perhaps once again the leading exporter of marijuana to the United States, and the single largest source of heroin. The diminishing of program effectiveness was in part a result of concerted efforts by traffickers to re-establish cultivation sources in Mexico, and in part because of an apparent spread of drug-related corruption which was affecting every facet of the enforcement program. Severe problems and deficiencies in the Mexican enforcement program were highlighted by evidence which surfaced in the investigation into the murder of DEA Agent Enrique Camarena. As 1986 began, Mexico was cooperating closely with the United States on a combined aerial survey and reconnaissance program, which included verification of eradication missions, and more comprehensive planning of eradication strategies.

Jamaica's expanded eradication effort was at year's end having the desired effect of reducing the annual marijuana production level by one-third, and also interrupting distribution patterns. The positive effect of the new program has been confirmed by aerial surveys.

COCA

New leaders in Bolivia and Peru began their administrations in 1985 by declaring their intentions of attacking the drug production problem. Bolivia adopted new laws in May setting the necessary legal basis for a coca control program, and at year's end asserted its political will by a demonstration eradication project. Despite terrorist-type attacks on field workers in anti-narcotics programs and organized resistance by traffickers, Peru pushed forward with its coca eradication program, destroying nearly 5,000 hectares, a near-attainment of the 1985 eradication goal which earlier in the year seemed impossible. At year's end, Peruvian officials were working on a plan for coca eradication throughout its territory. Both Bolivia and Peru have many political and economic problems to overcome while simultaneously attempting to curb coca production, but Peru has evidenced its determination, and recent statements and actions give the strongest hope in recent years that Bolivia is finally moving toward a sustained eradiction program.

The marginal gains of the manual eradication campaigns could be a thing of the past; Colombia succeeded in 1985 in identifying a chemical which appears to meet the criteria of being environmentally safe while effectively destroying the hardy coca bush. Expanded testing is proceeding with both backpack and aerial applications. The prospect is for a method that affords large-scale elimination of illicit coca cultivation. Assuming full utilization of aerial spraying capability, the maximum projection is that coca eradication could expand from 2,000 hectares in 1985 to 10,000 hectares in 1986. If successful in Colombia, there is potential application in other coca cultivation areas.

Efforts at containment of the problem receive a continuing high priority. Ecuador collaborated with Colombia on a joint coca eradication effort along their common border, and is intensifying both its eradication and interdiction efforts for 1986. Brazil, with U.S. assistance, initiated operations to destroy both coca and marijuana, as well as important seizure campaigns, while also expanding its efforts to interdict shipments of precursor chemicals used in cocaine refining. The United States assisted Panama in eradicating 210 hectares out of a crop of as much as 400-500 hectares last Fall, and assisted in a follow-on effort in January 1986. Aerial herbicidal spraying was resumed in Belize in October and again in February 1986.

ADDITIONAL COMMENTS ON LATIN AMERICA

Of considerable importance to the long-term prospects in Latin America is the willingness of governments to participate in regional activities. Colombia, whose Special Anti-Narcotics Unit of the National Police serves as the model for narcotics police forces in the Hemisphere, collaborated with Ecuador on a first-time cross-border coca eradication project, and provided the tactical and

logistics support for the first stage of a combined coca interdiction campaign with Peru (Operation Condor).

The twin problems of corruption and inefficiency were being addressed through prosecutions and reorganizations in Mexico, as well as in Peru, Bolivia and Jamaica.

OPIUM POPPY

Southeast Asia

Poppy production in Burma was held down in 1985 by the combined effects of the government's eradication program and adverse weather. The anticipation is that a downward trend can be sustained in the years ahead by a Burmese aerial eradication program which, starting in 1986, gives that government an ability to destroy poppy cultivation even in areas tactically controlled by insurgent armies. Thailand continues to promote development alternatives in poppy growing areas, but, in 1985, the government demonstrated its political will to bring illicit opium production under control by initiating eradication programs directed by the Royal Thai Army.

Southwest Asia

Pakistan continued the extension of its ban on poppy cultivation into the tribal areas of the Northwest Frontier Province, while attempting to secure effective suppression of poppy production in its merged and settled areas. An increase in estimated hectarage under cultivation in 1985 was offset by adverse weather which reduced yields. Improved data permitted a refinement of production estimates from the 40-50 MT estimate of 1984 to a new estimate of 40-70 MT for 1985, with net heroin production remaining at the 6 metric ton level. There is concern that rising prices may stimulate increased cultivation. However, the Pakistani Narcotics Control Board, which reports increased seizures, lab surrenders, and lab destructions for 1985, projects that it can reduce opium production in 1986 and 1987 through enforcement.

India is of increasing importance as a conduit for opium products from both Southwest and Southeast Asia, as well as for the shipment of precursor chemicals into the Golden Triangle.

Turkey continues to sustain one of the most successful efforts at preventing production of illicit opium poppy. Long a natural attraction for smugglers of every stripe, because it serves as the landbridge from Asia to Europe, Turkey continues to be a principal trafficking route for heroin from Southwest Asia, some of it refined in Turkish labs.

The 1986 INM Agenda

The increased production of heroin in Mexico, which was on a downward trend for several years, and expanded cultivation of marijuana, which had been effectively curbed for many years through an aggressive, effective aerial eradication program, were the principal disappointments in a year in which other programs, despite greater burdens, met or even exceeded our expectations. Mexico has been and continues to be seen as a trusted partner in the

anti-narcotics control effort, and, in meetings involving Presidents Reagan and de la Madrid, Secretaries of State Shultz and Sepulveda, and Attorneys General Meese and Garcia, both governments have pledged their unrestricted cooperation and assistance in rejuvenating this program.

Bolivia must complete the planning for both the voluntary and involuntary phases of its eradication campaign, and bring a substantial portion of its illicit coca acreage under control, enforced by eradication where necessary, enhanced by alternative development opportunities where appropriate. Bolivia met the criteria for receiving part of its 1986 economic and military assistance from the United States by adopting the necessary laws to establish a licit/illicit coca control program. The government well recognizes that continued assistance is dependent in part on achieving eradication targets in its agreement with the United States. Bolivia dispatched troops and police to the Chapare region in February to restore law and order, and both UMOPAR and PRE forces reported increased seizures of coca products and raids on processing centers. The voluntary phase of the eradication program began in December with key government officials joining campesinos in eradicating about 30 hectares, in what was seen as a demonstration of the government's political will to combat narcotics production.

Peru resumed narcotics interdiction activity in the Upper Huallaga Valley in February 1985, after an unfortunate pause which the Government felt was necessary to permit the military to concentrate on repelling the activities of political terrorists (Sendero Luminoso) in that growing region. The killings in the Upper Huallaga Valley and the lawlessness which permeates Tingo Maria continued in 1985, again proving that narcotics control and the battle against terrorism must both share a high priority with the Government of Peru. Peru's economic and military assistance from the United States is dependent in part on the development and implementation of a comprehensive strategy for coca control. The task in 1986 is to extend the coca eradication campaign into additional growing areas of the Upper Huallaga Valley, and begin a coca control program in the southern areas.

Starting in January 1985, Jamaica progressed from its previous reliance on an interdiction strategy to an aggressive campaign to destroy marijuana (ganja) cultivation. Manual eradication activities were conducted in both the spring and fall, with 952 hectares eradicated. This campaign, obviously prompted by Jamaican concerns for its economic and civil health as well as its need to curb an escalating domestic drug abuse problem, has the necessary support to be sustained in 1986, when it is estimated that 1,065 hectares will be eradicated. Likewise, Belize, which resumed in 1985 the highly effective aerial eradication of marijuana it employed in 1983, has continued that effort in 1986 to discourage traffickers from further attempts to secure a new base for cultivation. Panama's spraying program has also been sustained in 1986.

Burma now has the opportunity, with production down in 1985 and a major eradication program underway for the Spring 1986 harvest, to achieve a reduction in the world's largest production of illicit opium. The recently initiated government eradication in Thailand is

being expanded. Both of these governments must continue to enhance their individual and collective efforts to seize control of the border from traffickers, to destroy heroin laboratories, and to interdict shipments of both precursor chemicals and finished opium products. Pakistan continues its laudable suppression of opium cultivation, but certain strengthening of the program is needed to ensure that continued good weather and/or rising prices do not negate the achievements of the last five years. Pakistan and neighboring nations must find ways of curbing the flow of opium products out of Afghanistan and suppressing the numerous heroin labs which operate along the Afghan-Pakistan border. Viable approaches have still not been found to Iran or to Laos, and the reports of increased opium production in the latter are of renewed concern, particularly given the harbingers of success elsewhere in the Golden Triangle.

The general task remains the same as in earlier years: the grower-to-user narcotics chain which stretches across five continents must be broken through a comprehensive program of international control. Pressure must be applied at all points in the chain -- through crop control; through increased seizures of both drug products and financial assets; through intensified investigation and prosecution of traffickers; and through effective treatment and prevention of drug abuse.

PROGRAM EXPANSION & INTERNATIONALIZATION

Senator Inouye: Miss Wrobleski, when you say, as you did in your prepared statement, that 1985 was a very productive year for program expansion and inter- nationalization, what do you mean?

Miss Wrobleski: Expansion of INM's program increased significantly in 1985. Given the bureau's mandate to eliminate the supply of narcotics at the source, INM's strategy is predicated on crop control through manual and herbicidal eradication. During 1985, fourteen countries engaged in crop eradication. Nine countries undertook eradication by manual methods - Bolivia, Brazil, Costa Rica, Ecuador, Jamaica, Pakistan, Peru, Thailand and Venezuela. Five countries implemented eradication by chemical (herbicidal) means - Mexico, Colombia, Burma, Belize, and Panama.

Regarding the internationalization of the narcotics issue, 1985 represents a milestone in worldwide awareness of the dangers of drug abuse and drug trafficking. During the year, several drug control initiatives were undertaken by countries, regional groups and international organizations. The United Nations approved the convening of a world conference on drug abuse and illicit trafficking which will take place in June 1987 in Vienna. The UN is also drafting a new international convention on drug trafficking which will complement the two existing international drug control conventions. Quite significant is the priority accorded to narcotics control in the UN General Assembly. Three years ago, only a handful of countries addressed the issue. At the 40th General Assembly, over sixty countries expressed a sense of urgency and need for greater national and international commitment to fighting drug abuse and drug trafficking. The Summit Seven countries approved a report outlining measures which the countries can undertake to combat drug abuse, illicit drug production and drug trafficking, and narcotics control was discussed as a priority agenda item at the

1986 Economic Summit in Tokyo. Many countries which have in the past given little priority to drug abuse or trafficking have now developed national strategies designed to provide coordinated effective measures to deal with the problems.

Senator Inouye: Have others increased their contribution to this narcotics control effort?

Miss Wrobleski: Yes indeed. Many Western European and other developed countries, such as Italy, West Germany, and the United Kingdom, are providing increased financial support to the international narcotics control effort. In addition, these and other non-western countries are taking a more active role in international organizations and meetings in promoting greater attention to combatting the drug problem.

CUSTOMS TRAINING FOR EUROPEANS

Senator Inouye: Does the United States still provide customs training to European countries at no cost?

Miss Wrobleski: INM does provide customs training to a handful of European countries -- Portugal, Greece, Spain, Ireland, Cyprus and Malta. The basic criterion on which these countries were selected to receive training funds is the level of per-capita gross national product which is significantly less than other European countries.

UNFDAC CONTRIBUTION

Senator Inouye: How do European contributions to the UN Fund for Drug Abuse Control compare to those of the United States?

Miss Wrobleski: The United States contribution to the United Nations Fund in 1985 was $2.7 million, from the budget of my bureau.

By comparison, Italy has pledged $2.5 million to the Special Development and Enforcement Program in Pakistan, and also pledged $40 million ($10.3 million in 1985) to coca control projects in South America (through the Fund). The United Kingdom has pledged $5.1 million to the Pakistan program and $5.29 million to the Fund for other projects. The Netherlands has pledged $2.7 million to the Pakistani fund, and Canada $800,000. The Federal Republic of Germany has pledged $1.62 million to the Fund, while Norway has pledged $2.47 million, and Sweden has pledged $442,000, all in 1985.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

DISTRIBUTION OF NARCOTICS ASSISTANCE

Senator Deconcini: The international narcotics control program has increased by over 30% since fiscal year 1985--a solid increase and an appropriate one in light of the ever-increasing drug problem in both source countries and transhipment countries.

Yet perhaps the major transshipment country in our hemisphere, the Bahamas, has received very little assistance from this program. Just last week, I visited with the Deputy Prime Minister of the Bahamas and learned of his country's pledge to enter into some innovative and effective anti-drug programs with the United States. For example, the Bahamians are close to signing an aggressive extradition treaty with the U.S. They are willing to allow U.S. Customs pilots to pursue the drug smugglers into the Bahamas to make arrests with Bahamian police. They are anxious to send their top drug enforcement police to the U.S. to train, and they are anxious to allow the U.S. Customs Service or the Defense Department to put another two aerostat radar ballons on Bahamian soil to detect drug aircraft. Yet your budget calls for only $200,000 for the Bahamas next year. Why?

Miss Wrobleski: We place our highest priority on crop control in source countries as the least expensive and most effective method of eliminating illicit narcotics production. The initiatives and programs described in our budget request are consistent with this strategy, emphasizing eradication and other source country control programs.

Our emphasis on eradication programs, however, does not imply that support for interdiction and other enforcement activities is ignored. My Bureau and other U.S. agencies concerned with narcotics control actively pursue opportunities for effective control operations in all areas along the trafficking chain from crop cultivation to the delivery of drugs in the U.S. Our actions, however, are constrained not only by the availability of appropriated funds, but by factors outside of direct U.S. control, including questions of foreign government commitment, integrity, and institutional capabilities.

In the case of The Bahamas, the climate of narcotics cooperation has significantly improved in the last two years, and specifically in the period following the issuance of The Bahamas Commission of Inquiry report dealing with narcotics trafficking activity in that country. We welcome the improvement and have expanded activities in cooperation with Bahamian agencies to increase interdiction activities in the area, such as "Operation Bahamas and Turks" (OPBAT), Coast Guard operations, etc. complementing the efforts of the Vice-President's South Florida Task Force and other anti-drug efforts in the southeastern U.S. These activities have had a demonstrated deterrent impact on trafficking activity in The Bahamas. While certainly not eliminating drug shipments through the region, there are many indications that traffickers have felt the pressure of stepped-up interdiction efforts in The Bahamas, as well as other areas of the Caribbean. The State Department has provided funding support for these efforts when such funding could significantly contribute to the effectiveness of narcotics control efforts and we will continue to support worthwhile initiatives in the area.

INM ASSISTANCE TO COLOMBIA

Senator Deconcini: You plan to cut narcotics control assistance to Colombia for the second year in a row. Yet, as you know, one of the few major success stories in narcotics eradication

over the past year has been the eradication of marijuana in Colombia. The eradication has been so successful that Mexico is about to replace Colombia as the No. 1 supplier of marijuana in the U.S.

Why are you cutting Colombia at the same time you are increasing funding for Bolivia and Peru -- two countries that have yet to get really serious about eradicating drugs?

Miss Wrobleski: We are asking for less funding for Colombia in 1987 than we did in the two prior years because we plan fewer major cost purchases such as helicopters. We are by no means decreasing our support for the Colombian effort, which receives not only those funds earmarked in our budget but also funds made available to us for regional projects in Latin America. For example, in 1986 we financed the acquisition of aircraft by the Colombian National Police from the Latin American Regional account. These aircraft to be operated by Colombia, but dedicated to enforcement activities in South America generally. Some 1987 regional funds will be similarly allocated to Colombia, which has taken a position of leadership in regional cooperation against narcotics. Similarly, most of the special MAP funds allocated to INM are being spent to arm or armor Colombian aircraft used in narcotics control.

MEXICAN COOPERATION

Senator Deconcini: What information do you have to show that Mexico is, in fact, being cooperative and aggressive in its anti-drug campaign, in view of the Administration criticism to the contrary?

Miss Wrobleski: The problem of drug trafficking in Mexico is obviously a major problem, and is a high priority of my Bureau. Unfortunately, the problem of corruption inevitably accompanies drug trafficking, and Mexico is not exempt. These problems are not new, nor are they unique to Mexico. We have enjoyed a long history of active cooperation with the Government of Mexico regarding drug trafficking, perhaps most notably with regard to crop eradication. After the Mexican government implemented a large-scale narcotics crop aerial eradication program in the mid-1970's with U.S. support, narcotics production dropped dramatically. For example, Mexico was once estimated to have supplied over 85% of the U.S. heroin market, or approximately 65 tons of heroin, in the mid-70's. By the early 1980's, the production figures were estimated to have dropped to approximately 16 tons, or around 33% of the U.S. market.

As was indicated in the prior year annual narcotics reports to Congress submitted by my Bureau, the trend toward declining narcotics production changed in the last few years, a major source of concern to us. Although several factors can be cited as contributing to the increase in production, corruption clearly plays a major role, as noted in our 1985 and 1986 reports. The Department of State, the Drug Enforcement Administration, and other U.S. agencies began discussions with the Government of Mexico to review ongoing programs to change procedures and establish new initiatives as necessary to address the problems. The February 1985, kidnap and murder of DEA agent Enrique Camarena dramatically underscored the urgency of the need to attack and contain the growing strength of the narcotics production and trafficking networks in Mexico.

Since that time, a number of initiatives have begun to yield results, such as an independent verification program started in 1985, an aerial survey program, and improved operations procedures in the crop eradication program. A series of law enforcement meetings chaired by Attorney General Meese and Mexican Attorney General Garcia have insured active high-level dialogue as well as on-going working level liaison. AG Garcia as well as President de la Madrid have repeatedly stressed their commitment to strong anti-narcotics programs. The extent of traffickers' wealth and influence, the problem of corruption, and the general nature of drug trafficking preclude quick and easy solutions to the issue of drug trafficking in Mexico. We believe, however, that the long-standing U.S./Mexican cooperative programs, the ongoing dialogue, and current new initiatives are a good foundation for future progress to again establish a declining production trend and more effective narcotics control programs in Mexico.

PROGRAM DEVELOPMENT & SUPPORT

Senator Deconcini: Your are requesting $2,890,000 for program development support -- an increase of about 10% over last year. This covers the management of the international narcotics matters program, including a staff of 33 fulltime positions; consultants; special studies; and other support functions. In these tight budget times, when we need every dime going into anti-drug efforts in source and transshipment countries, why not cut the staff way back in INM and use the money for more eradication programs in these countries? What would be the effect on your ability to manage the INM programs if we were to cut program development support by $890,000 and use that money instead for direct assistance for drug source or transshipment countries?

Miss Wrobleski: The $2,890,00 requested for central program development support provides the means to plan, implement, and monitor the international narcotics control program overseas. Because INM has been able to develop more eradication programs and introduce new spray technologies with an increased number of cooperating countries, it has been necessary to employ additional technical expertise. The central development support budget also funds a number of special studies relating to production estimates, aerial surveys to plan eradication strategies, and environmental studies to meet legal requirements associated with eradication.

Your question about the impact of a specific cut suggests that we have not adequately explained our program development support role to the Committee. The senior officers of INM and their immediate support staff (14 persons in all) are funded under the Department's basic authorities act. The $2.89 million in program development support funds, appropriated under the foreign assistance act, provides a cadre of program management, systems analysis, commodity procurement and contract specialists, and technical experts who are in fact engaged in providing direct assistance to drug source and transhipment countries. There are 33 such specialists based in Washington, 14 based overseas in our narcotics assistance units, and 18 foreign nationals also working in our narcotics assistance units. These specialists are a very diverse group, and eliminating any of these positions, through a cut such as you are discussing, would mean eliminating direct support functions. For example, INM provides the specialists who plan and

supervise aerial herbicidal spraying, as well as the specialists who [illegible] and outfit the aircraft and monitor their maintenance and operations. The cadre includes the foreign service and civil service country specialists who provide the detailed knowledge of the countries in which we operate that is essential to the communications/operations link we maintain with our Embassies and foreign governments.

We think that, over time, we have developed the size and calibre of staff needed to ensure a timely and effective response to international narcotics problems, to ensure that foreign governments are given the best possible expert advice on mounting and sustaining enforcement campaigns, and to ensure that U.S. dollars are managed and spent efficiently.

ANTI-TERRORISM TRAINING

Senator Deconcini: What role would the Federal Law Enforcement Training Center (FLETC) be playing in your antiterrorism assistance program?

Miss Wrobleski: The Bureau for International Narcotics Matters (INM) is prohibited under Sec. 660 of the Foreign Assistance Act from conducting antiterrorism training. That training is supported by the Office for Counter-Terrorism and Emergency Planning (M/CTP) under authority of Sec. 571-576 of the Foreign Assistance Act as Amended. Specifically, the training for counter-terrorism is administered by the U.S. Customs Service which conducts programs at both FLETC and Marana, as well as overseas, for both foreign and U.S. personnel. The U.S. Customs Service maintains a $1.2 million reimbursable agreement with the Department of State in FY 1986 to conduct this training, with $1.5 million projected for FY 1987.

INM conducts anti-narcotics law enforcement training for foreign law enforcement personnel at FLETC, on a reimbursable basis with the Drug Enforcement Administration. During FY 1986, our budget for DEA narcotics training was approximately $2.25 million, with an expenditure of $2.3 million projected for FY 1987. Since the inception of our program with the DEA, we have trained approximately 21,000 personnel, from 104 countries or dependent territories. INM also supports similar training with the U.S. Customs Service and the U.S. Coast Guard. Virtually all of this training is conducted overseas.

Senator DeConcini: Why shouldn't this important anti-terrorism assistance program be funded at least at FY 1986 levels? Could you tell us which countries will be covered by this assistance in FY 1987?

Miss Wrobleski: I cannot address this question, since this type of training does not fall within the purview of the Bureau for International Narcotics Matters. The representative from the Office of Counter-Terrorism and Emergency Planning is prepared to address this issue.

SOUTHWEST BORDER TASK FORCE

Senator Deconcini: Last week, five other Senators from border

states joined me in a letter to the President asking, among other things, that a Southwest Border Drug Task Force be established along the U.S.-Mexican border. This task force would be modeled along the lines of the South Florida Task Force that was formed to combat drugs in South Florida and in the Caribbean region. In a meeting with your predecessor last week, he indicated to me that this might be something that the Administration may be looking into. In your opinion, would a focused effort such as this along the Southwest border help your efforts with Mexico to eradicate drug trafficking?

Miss Wrobleski: As Treasury Assistant Secretary Keating announced, the Administration has formed an inter-agency group to help coordinate enhanced interdiction and enforcement activities along the southwest border. The group was formed under the auspices of the National Drug Enforcement Policy Board, and I have been fully involved with these discussions. The focus of the group is on border interdiction and U.S. enforcement activities, and I consider it to be a valuable supplement to our initiatives regarding crop eradication and related enforcement activities in Mexico.

OFFICE FOR COUNTERTERRORISM AND EMERGENCY PLANNING

STATEMENT OF PARKER W. BORG, PRINCIPAL DEPUTY DIRECTOR, OFFICE FOR COUNTERTERRORISM, DEPARTMENT OF STATE

ACCOMPANIED BY:

JOHN W. CAMPBELL, ASSOCIATE DIRECTOR, ANTITERRORISM ASSISTANCE PROGRAM

CHARLES HUGHES, BUDGET AND FISCAL OFFICER, ATA PROGRAM

SUPPORT OF ANTITERRORISM POLICY

Senator KASTEN. Our next witness is Mr. Parker Borg, the Principal Deputy Director of the Counterterrorism Office.

As I mentioned in my opening statement earlier, Ambassador Oakley was called out of town. Mr. Borg is delivering his testimony.

While this particular program is small in terms of dollars being requested, its overall purpose is crucial as we try to stem the increasing acts of terrorism around the world, especially in the Mediterranean region. Its program is designed primarily to train other countries, as well as to provide limited amounts of equipment to help combat terrorism.

We look forward to your testimony, Mr. Borg. As chairman of this subcommittee, I intend to take whatever action is necessary in order to give the administration the tools to combat terrorism around the world.

In some instances these tools may take the form of reduction to country programs where countries involved have taken a position contrary to our overall effort and opposition to terrorism. I intend to support this particular program, your program. In the regular 1986 appropriations legislation, we supported the higher level, as you may know at that time, but the House had a much lower number, and in a conference, we were required to compromise at a lower number than we would have preferred.

We are going to be looking at a number of difficult areas such as: Why should we support a program in Thailand under this funding in view of that country's vote yesterday in the U.N. Security Council condemning the U.S. action last week?

I think it is time that we start addressing some of these questions and problems in a more active way. Why should we provide support for a program in Greece given that country's sole opposition yesterday among European foreign ministers against minimal efforts to combat Libyan terrorism?

There is no question that the American people have had enough. We don't need to see any more children or babies or crippled old men killed by cowardly terrorists in order to act. There is no need to have

more victims to act, hopefully in concert with allies, against these barbarians, but especially against countries that support them.

Mr. Borg, as at the beginning of the hearing, we will ask that you summarize your statement. Your full account will be printed in the record, and we look forward to your testimony.

Mr. BORG. Thank you very much.

ATA PROGRAM

I have a summary that I will read. I first want to apologize for Ambassador Oakley who learned last Friday that he had to travel with the Attorney General today, and so he could not be with you.

I am happy to be here to testify on the Antiterrorism Assistance Program to explain our fiscal year 1987 budget request. I have provided the committee with a full statement. This is an abbreviated version.

In the short time since its inauguration in 1984, the ATA Program has become one of our most effective tools to improve international counterterrorism cooperation by strengthening the dialog with other states and providing technical assistance in this field through training. The need for an Antiterrorism Assistance Program has never been more apparent.

INTERNATIONAL TERRORIST INCIDENTS IN 1985

During 1985, the number of international terrorist incidents increased to 812, an increase of 33 percent over 1984 and up 50 percent from the average number of incidents in the previous years.

In 1985, terrorist attacks were marked by such dramatic events as the highjacking of TWA 847, the Achille Lauro, the Egypt Air 648, and the murder of four off-duty Marines and two U.S. civilians in El Salvador, plus the incidents at Rome and Vienna airports. This tragic series of incidents has continued in 1986, with several additional serious incidents which resulted in American deaths. Twenty-eight Americans were killed and 139 injured in 1985.

Since nearly all terrorist incidents were outside the United States and, in fact, only seven occurred within the United States last year, we must look primarily for their resolution to other governments which have the legal and political responsibility for the safety of American facilities and personnel overseas.

METHODS OF COMBATING TERRORISM

The ATA Program was created to strengthen the capability and determination of like-minded governments to combat terrorism both alone and in cooperation with the United States.

We have pursued this in two ways: First, we have concentrated on establishing a policy dialog with senior foreign officials on the importance of closer cooperation and sharing information about terrorism and developing joint efforts.

Second, we have focused on training key personnel from appropriate civilian law enforcement and security agencies from these countries. The training process is focused on improving technical skills and exper-

tise while at the same time emphasizing the importance of human rights in the area of law enforcement and counterterrorism.

PROGRAM PROGRESS

We are pleased with the progress of the program to date. Seventeen new countries participated in the introductory seminars in 1985, bringing the total to 32 countries which have joined the program. Last year countries like Israel, Greece, Pakistan, Tunisia, Honduras, Colombia, and members of the Gulf Cooperative Council began the program. A total of over 1,800 officials have now participated in over 100 specialized antiterrorism training programs.

BUDGET REQUEST

The ATA Program made effective use of the entire $5 million appropriation for fiscal year 1985, its first full year of operation. Our original request for $5 million for fiscal year 1986 was increased by the Congress last summer to $7.42 million. After reductions in accordance with Gramm-Rudman, this amounted to $7.1 million.

An additional $4.84 million is pending in the fiscal year 1986 diplomatic security supplemental request. We are requesting $9.84 million for fiscal 1987. The ATA Program is and must continue to be primarily a training program. At the present time, however, we are limited to a maximum $325,000 for training-related equipment.

EQUIPMENT GRANTS

Last year, with congressional approval to reprogram $375,000, we provided a total of $700,000 for equipment. We see a pressing need for agreement with appropriate committees of the Congress in the change in the authorizing legislation which would permit a substantial increase in the amount allowed within the overall budget for equipment grants.

Removal of restrictions on provision of some munitions list items by the Congress in 1985, small arms, small arms ammunition and protective equipment, and the increased emphasis on civil aviation and airport security which requires training with and utilization of sophisticated and relatively expensive equipment, such as x-ray and metal detection devices, have combined to make the present limitation clearly inadequate. Without that equipment, people who are going to be trained will not be able to do as good a job as they otherwise could.

In this fiscal year, we intend to spend $500,000 of ATA money on El Salvador, of which $450,000 will be for training. This is the ATA part of a special counterterrorism program, with $4.5 million reprogrammed for military assistance, it will go primarily to build up the civilian, counterterrorist and police capability in the city of San Salvador and its suburbs.

This is vitally important in light of what intelligence indicates lies ahead this year. This concludes my opening statement.

I would be happy to attempt to answer whatever questions I can.

Senator KASTEN. Thank you.

The restrictions that you are talking about, I am told, are in the authorizing legislation, not the appropriations legislation. Is that correct?

Mr. BORG. That is right.

GREECE

Senator KASTEN. I don't think we are going to be in the business of changing or overriding that amount.

Let me ask you a question that I suggested in my opening comment. You state in your written testimony, and in your summary, as well, that Greece is one of the countries actively involved in the ATA Program in 1985. You characterized Greece in the written testimony as one of the countries facing "a serious long-term terrorist threat . . . and must provide protection to substantial numbers of Americans, including U.S. military, diplomatic and AID personnel, tourists, and businessmen."

Yesterday, during the meeting of the Common Market Foreign Ministers in Luxembourg, Greece alone refused to agree to diplomatic sanctions against Libya.

It is obvious to the other Common Market Foreign Ministers that Libyan diplomats pose a terrorist threat. It is obvious, evidently, to everyone but Greece. It doesn't appear Greece is willing to join its allies in combating terrorism.

How much have you spent of this so-called cooperative program with Greece—one of the countries you are working with on this long-term threat? How much have you spent on Greece? What are they doing? If Greece is to participate in providing protection for Americans, it would seem to me a good first step would be to limit the number of Libyan diplomats in that country and to limit their travel within Greece.

What are your views? It seems to me we have got two contradictory goals here.

SECURITY AT ATHENS AIRPORT

Mr. BORG. We, too, were very disappointed that the Greeks did not take a stronger stand in the meeting of the E.C. group yesterday. We began our program in Greece a little over 1 year ago. We were very concerned, particularly with airport security at Athens Airport.

We sent a delegation out in February 1985; it was an FAA, State Department, and industry delegation. It emphasized airport security. The delegation pointed out to the Greeks that there were serious problems with their airport, and that there were a number of steps which needed to be taken, and that we were prepared to provide some assistance so that they could improve security at Athens Airport.

They did not. They indicated at the time that they were prepared to make some changes, and they did start making some minor changes. They, however, did not take all of the steps we thought were necessary.

When TWA 847 was hijacked back in June, we issued a travel advisory. And the Greeks came back and said, "What is going on? Why are you so upset with us?"

We responded and said, "Look, it is technical. Here are the problems at your airport. We are prepared to provide assistance."

Our concern has been primarily with establishing better airport security at Athens Airport. We began the program with the Greeks shortly thereafter, and to date, we have trained just one delegation. We have brought two groups from Greece to the United States, one for an executive seminar that discusses the program and the range of things that we are prepared to do, and the second is an airport security police management seminar. Total expenditures to Greece, so far, are $200,822.

Senator KASTEN. So they are really not participating. A couple of people had nice visits to the United States and went to some seminars and some hotels.

Mr. BORG. Thirty-one people have come to the United States from Greece.

Senator KASTEN. But there has been not much change in Greece?

DIALOG ESTABLISHED WITH GREEKS

Mr. BORG. We have established a dialog with the Greeks. We did not, a year ago, have a dialog or an understanding. We are now in regular contact with the Greeks on the problem of terrorism, and we have had some important successes in cooperation through our bilateral relationship.

We were disappointed over the course of the past 4 months in our discussions as they related to Libya, because we have not had success in dealing with them on Libya. The other areas that we must deal with them are also important. We feel we have to continue the dialog on security at Athens Airport, for example.

SECURITY PROCEDURES AT ISRAELI AIRPORTS

Senator KASTEN. Last week, a woman was arrested in London after trying to board an El Al flight to Israel. She was carrying explosives concealed in her carry-on bag in a false bottom, evidently. This woman had already gone through the normal security procedures used by the airport. It was the more thorough hand search—I am not even sure if that is what it would be called—but the more thorough search by El Al security officials that thwarted the bomb attempt.

I can only assume that the security procedures employed at London are similar, the electronics security, to those used in the United States and other western countries.

Mr. BORG. Yes, sir.

Senator KASTEN. And that these are the kinds of security procedures that essentially, you are trying to encourage under the ATA programs. Is the Counterterrorism Emergency Planning Office rethinking its procedures as a result of what happened in London?

In other words, should we, in the United States and possibly in our training courses, expand the program to encompass some of the procedures used by El Al?

My understanding is that they do a personality profile, almost.

Mr. BORG. That is right.

Senator KASTEN. They just watch people, and if someone looks a little bit out of order to them, they quietly take him or her aside and then start asking questions, and in the process, they may go through a search or they may not.

You might want to add a little bit more to our information on exactly what happened in London, if that is appropriate. But are you limiting your effort to these countries in the United States to just bring people up to speed with the electronic walk-through devices that we have got even in the Capitol, or does this, and other examples, encourage you to go a little bit further?

Mr. BORG. There are two ways we have to look at this: First, what we are doing in terms of our antiterrorism program; and second, what we are doing in terms of U.S. law at the present time and U.S. regulation? We have completed with the FAA a review, which we will be implementing over the coming weeks, where we will be requiring this same sort of secondary screening at all European airports where American carriers are operating.

Thus, the screening that they used at El Al will be used at all airports that are served by American carriers. We are, at the present time, developing a profile of the kind of person that we would need to look at more carefully. This is something that has not been completed at the present time.

In terms of the courses that we are offering with the ATA program, yes, most of them are designed to look at things the way we are currently looking at them in the United States. We are also going on to some additional activities such as bomb dog training, which has been very successful.

After we develop our own profile and train people in how we will be doing this in the United States, then we would be able to consider if this is a legitimate area to provide training to other countries. The Israelis have been in front of us in this area. Also, the Israelis know the profile more readily of the kind of person they are looking for than we do.

Senator KASTEN. I have got a number of additional questions here that I think I am going to, in the interest of time, submit to you for the record.

Mr. BORG. All right.

MANAGEMENT OF ANTITERRORIST PROGRAM

Senator KASTEN. We have got a couple of questions also in terms of suggestions that we made of the antiterrorism program, that the pure handling of antiterrorism be placed under management other than the Office of the Under Secretary for Management.

Mr. BORG. I can explain that quickly, if you would like.

Senator KASTEN. If you would like to explain that quickly, I would be happy to hear that.

Mr. BORG. What we have done is kept policy control for the program under the Ambassador at Large for Counterterrorism and put the management of the specific training programs under the Bureau of Diplomatic Security, and John Campbell, here, works for my office, and Chuck Hughes works for the Bureau of Diplomatic Security. But they sit in the same office, and they work together in putting together the programs.

For the moment, this is working very well.

Senator KASTEN. It seems to be working its way through?

Mr. BORG. Yes.

Senator KASTEN. We look forward, obviously, to working with you very closely over the next several months. Unfortunately, we have had problems even getting started with this overall program after it had been recommended by the administration. We supported it in the Senate, and it was dropped by the House, but we still have a lot of work to do. I look forward to working with you, and I appreciate the work that you are doing.

Mr. BORG. Thank you.

[The statement of Ambassador Oakley follows:]

PREPARED STATEMENT

AMBASSADOR ROBERT B. OAKLEY

ACTING AMBASSADOR-AT-LARGE FOR COUNTER-TERRORISM

I am very pleased to be with the subcommittee today to explain our budget request for Fiscal Year 1987 for the Anti-Terrorism Assistance (ATA) Program. In the short time since its inauguration in 1984, the ATA Program has become one of our most effective tools to improve international counter-terrorism cooperation by strengthening the dialoque with other states and providing technical assistance in this field through training. Recent events and developments have made our effort in this area even more essential.

We are requesting $9.84 million for Fiscal Year 1987. As you may recall, our original request for $5 million for FY 86 was increased by the Congress last summer to $7.42 million.

After reductions in accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, this amounts to $7.10 million for FY 86. An additional $4.84 million is pending in the FY 86 (Diplomatic Security) supplemental request.

During 1985, the number of international terrorism incidents increased to 812, an increase of 33 % over the 600 incidents for 1984 and up over 50 % from the average number of incidents each year for the previous five years. Since nearly all of the incidents occur outside the U.S., we must look primarily to other governments for the resolution of

these incidents. They have the legal and political responsibility for the safety and security of American diplomatic, military and business facilities and personnel and tourists in their country just as the U.S. has this responsibility within our own country. Success in countering terrorism can increase only through closer cooperation with other governments in a well-organized common effort.

The ATA Program was created to strengthen the capability and determination of like-minded governments to combat terrorism, both alone and in cooperation with the United States. The ATA program follows two basic approaches:

--First, we have concentrated on establishing a policy dialogue with senior officials in selected countries on the importance of closer cooperation in sharing intelligence about terrorism and developing joint efforts.

--Second, we have focused on training key personnel from appropriate civilian law enforcement and security agencies from those countries. The training process has focused not only on improving technical skills and expertise, but has also placed equal emphasis upon familiarizing foreign officials with the modern, humane techniques used by U.S. federal, state and local police agencies in dealing with sensitive and dangerous problem areas such as hostage rescue and VIP protection.

We are very pleased with the progress of the program during 1985. As we noted in our annual report, highlights of the program for the past year have included:

--Seventeen new countries participated in the introductory seminars in the U.S., bringing the total to 32 countries which have joined the program.

--A total of well over 1800 officials have now participated in more than 100 separate specialized anti-terrorism training courses in the 18 months since the first course began. Over 260 more have participated in the Phase I executive seminar.

--The number of agencies and organizations in the U.S. which have actually conducted the training courses is growing. ATA courses to date have been offered by seven different federal government agencies, six state and local police agencies, four professional organizations, and four universities and private firms.

--The U.S. procured $700,000 in training-related equipment ($375,000 through reprogramming) for participating countries during FY 85, most of which was for civil aviation security (walk-through and hand-held metal detectors and cargo and carry-on baggage x-ray devices). This reprogramming was discussed in letters to the Senate Foreign Relations Committee, Senate Committee on Appropriations, House Committee on Appropriations, and the House Committee on Foreign Affairs, dated September 11, 1985.

--Authority for the operational management of the program was transferred to the Bureau of Diplomatic Security in January 1986. The Office of the Ambassador-at-Large retains responsibility for policy guidance.

--The ATA program made effective use of the entire $5 million appropriation for FY 1985, its first full year of operation.

Among the most popular courses offered during the year were civil aviation security, VIP protection, crisis management, and hostage negotiation and rescue. New courses introduced included post-blast investigation, building security, and pipeline security.

A significant change in the ATA legislation was approved by the Congress in 1985 when it authorized the provision of certain previously prohibited items on the Munitions List established pursuant to the Arms Export Control Act. Items affected are small arms in Category I, small arms ammunition in Category II, and protective equipment in Category X, if they are directly related to anti-terrorism training.

The Program for 1986:

Priority objectives for the program in 1986 are to:

--encourage appropriate new countries to participate in the program;
--continue emphasis on civil aviation, airport and maritime security;
--expand program evaluation and assessment.
--modify courses to meet the specific needs of individual countries; and
--increase coordination of anti-terrorism training programs within the U.S. Government

With respect to the first objective above, it has often taken considerable time and persuasion to overcome inertia or reluctance on the part of countries whose participation we consider important. Some governments have been convinced to participate only when a terrorist act has taken place in or near their territory. This has been particularly true in the Mediterranean area and the Persian Gulf where there are special political considerations.

Nevertheless, as we have noted, Israel, Egypt, Tunisia, the GCC States, Greece and Turkey were actively involved in ATA during 1985. These are all countries which face a serious long-term terrorist threat, are important to U.S. national interests, and must provide protection to substantial numbers of Americans, including U.S. military, diplomatic and AID personnel, tourists and businessmen.

The series of recent tragic events such as the murder of our Marines in El Salvador, the TWA 847 hijacking, Achille Lauro, Egyptair 648, the Rome, Vienna and Frankfurt airport attacks, and the TWA 840 and Berlin discotheque bombings dramatize the fact that the international terrorist threat continues unabated. The trend of terrorist activity is sharply up and there is no evidence to suggest that it will lessen in the foreseeable future. As a result, more and more countries are reassessing their counterterrorist capabilities and recognizing a need for training in anti-terrorist techniques. We already have over 70 countries approved to participate and expect that list to increase.

To date we have conducted partial or complete programs with about half of those approved. Obviously, a great deal

remains to be done. The additional funds pending in the FY 86 supplemental budget request will be used to accommodate additional participants and to increase the emphasis on civil aviation security as mandated by Congress.

With Congressional approval, we are now prepared to move ahead with the ATA Program for El Salvador, as stated in a November 19, 1985 letter to the Authorization and Appropriation Committees of the Congress.

As soon as our Embassy has coordinated acceptable dates with the Government of El Salvador and Congressional notification requirements are satisfied, we plan to initiate the first training courses in the U.S.

The Government of El Salvador has made some extremely sound decisions regarding the ATA course offerings presented to them earlier this year. They have requested that the "Senior Law Enforcement Counter-Terrorist Seminar " be combined with course on "Human Relations and Internal Disciplinary Systems." They have indicated informally that the officers designated to attend this combined course will include:

the Chief of Staff, Director of Academics, Chief of Operations, and the Chief of Intelligence of the National Guard,the Chief of Operations of the Treasury Police, The Chief of Staff and the Chief of Administration of the National Police.By combining these courses the GOES has demonstrated their awareness of the necessity for senior officers to be cognizant of the need for police officers to conduct themselves in a humane and disciplined manner.

In addition, the GOES has chosen to participate in all other course offerings to include:

Counter-Terrorist Command and Control Procedures
Counter-Terrorism Patrol Operations
Counter-Terrorism Training Skills

The ranks and positions of the personnel chosen to attend these courses indicate that a great deal of thought and foresight has gone into the acceptance of this program. For example, many lower ranking officers and non-commissioned officers with direct street responsibility have been chosen to attend the patrol operations course. We believe that exposure to American procedures and the emphasis on human rights will mark a significant beginning towards the goal of professionalizing the police of El Salvador in their counter-terrorist responsibilities.

This basic curriculum of five courses, with limited accompanying equipment grants, will serve as a foundation upon which subsequent ATA training can build and expand.

The DOD equipment package for El Salvador (vehicles and communications), as described in the November 19, 1985 letter, is directly related to the ATA training. Together, they will enable the Government of El Salvador to begin to function in operational areas that have desperately needed attention for a long time. This includes such activities as despatching motorized police patrols and reaction forces, using the communications equipment to coordinate as well as maintain command and control of those activities, primarily for the city and suburbs of San Salvador. The planned ATA

training thus focuses on instruction which is directly related to these operations. It will emphasize that a knowledge of human relations, together with the ability to discipline its own officers, is essential if there is to be increased trust and support from the population, without which no police force can operate effectively against terrorism.

The FY 1987 budget request covers the following categories:

1. Program Management: $370,000. Program management funds provide for staff travel and transportation, rental of office equipment and supplies. The staff manages and coordinates all phases of the program, including promoting, presenting and explaining the goals of the program to eligible countries; developing and coordinating the executive seminars (Phase I); participates as the team leader of the training program design teams (Phase II); and develops and schedules the training courses throughout the U.S. for the participating countries.

2. Executive Seminars: $1,075,000. Phase I seminars will be conducted for up to 15 countries with 8-15 senior officials in each delegation. The funding provides for transportation and per diem for the participants and for program support costs. (15 countries participated in Phase I in FY 84, 17 in FY 85 and 15 are projected for FY 86.)

3. Training Assessments: $162,000. Up to 15 Phase II teams of 3-5 members will conduct training design assessments overseas.

Experts to accompany the Department of State team leader will be drawn from U.S. Customs, BATF, DOT, FAA, and other participating federal, state and local agencies.

4. Training Courses: $7,908,000. This figure reflects a continuing expansion of the specific training programs of Phase III as more and more participating countries complete the initial phases and move into an actual training cycle. We anticipate that approximately 2,000 individuals will be trained in FY 87, a 68% increase over FY 86. This estimate takes into consideration class size, type of training, and the ability of the participating country to make students available for extended periods of time. In addition to an increase in the number of individuals trained in FY 87, there will be an increase in the length of some courses, such as Civil Aviation Security, expansion of such highly specialized courses as Bomb Detector Dog and Bomb Render Safe, and a continuing general increase in the level of comprehensiveness and sophistication.

5. Equipment Grants: Presently limited to $325,000 per year, this poses a problem. Upon completion of a number of specialized ATA training courses, participating governments may be provided appropriate equipment assistance. This has usually consisted of metal detectors and x-ray machines for airport and courtroom security, and bomb disposal equipment. The limit will need to be raised as additional countries complete Phase III training courses.

ATA is, and must continue to be, primarily a training program. However, we see an urgent and immediate need for agreement with appropriate committees of the Congress on a

change in the authorizing legislation which would permit a substantial increase in the amount allowed, within the overall budget, for training-related equipment assistance. Removal of restrictions on provision of some Munitions List items by the Congress in 1985, and an increased emphasis on civil aviation and airport security which requires training with increasingly sophisticated and expensive equipment such as x-ray and metal detection devices, have combined to make the present $325,000 limitation clearly inadequate.

Many of the governments participating in the program simply do not have funds available in their limited budgets for this sort of equipment, without which much of the training received will be of greatly diminished value. The existing $325,000 limitation might well be applied to the newly approved Munitions List items of a lethal nature, and a new upper limit established to cover non-lethal equipment such as airport x-ray machines. These combined figures, for example, could be set at not more than 25% of the total ATA program budget. This would permit us a measure of flexibility, enable us to support our training efforts at an adequate level, and meet the minimum equipment needs for an effective program by the governments of the personnel being trained. We intend to consult closely with this and other appropriate committees to develop an acceptable legislative change on this issue.

SUBMITTED QUESTIONS

Senator KASTEN. I would like to thank all of the witnesses for their testimony here this afternoon. There will be questions, as I said, submitted to the witnesses in writing. The committee expects that the Department will provide written answers to the questions within 2 weeks of the proceeding.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

CENTRAL AMERICA

Senator Kasten: Last year, in response to urgent pleas from the administration, at the highest levels, we considered Counterterrorist Programs for Central America. Finally, after various legal stumbling blocks were overcome, a small program is underway in El Salvador, which is where the primary need is.

Notwithstanding the problem with terrorism in Central America, and notwithstanding the fact that we were told that the urgent nature of the situation continued and that the administration would be requested (sic) FY 1987 funding for a Counterterrorism Program, no such program has been transmitted to Congress.

Why?

Ambassador Borg: The administration requested a $54 million Central America Counterterrorism Program last fall. The Senate Foreign Relations Committee passed, by a 15-1 vote, a lesser version of that bill. The administration continues to support the bill which is still pending in the Senate. However, because of Gramm-Rudman considerations, we anticipate asking that a budget amendment be submitted after authorization for the Central America Counterterrorism Program has been obtained.

ORGANIZATIONAL CHANGE

Senator Kasten: In last year's action on the FY 1986 appropriations legislation, the subcommittee recommended that the bureau which handles the Anti-Terrorism Program be placed under the management of something other than the office of The Under Secretary for Management. But in full committee, the legislative provision was dropped in favor of report language requiring the department to consult as to which would be the proper office through which the new bureau would report.

This subcommittee has not been consulted on this matter yet, and therefore I assume that no final decisions have been made. Do you know when the decision is going to be made, and therefore when we can expect to be consulted on this matter?

Ambassador Borg: The department reviewed a number of recommendations focusing on its functional counterterrorism responsibilities as a result of the Inman Report (Advisory Panel on Overseas Security). Since the legislative process on implementing the Inman Panel recommendations began in The House of Representatives, a number of senior State Department

Officials consulted with the House Foreign Affairs and other committees on the proposed changes. Subsequent consultations took place on the Senate side. The end result of this process, effective in January, 1986, was to transfer the operational management of the Anti-Terrorism Assistance Program to the newly established Bureau of Diplomatic Security, directed by the Assistant Secretary of State for Diplomatic Security, who reports directly to the Under Secretary for Management.

Secretary Shultz also designated an Ambassador-at-Large who reports directly to him and has responsibility for the policy aspects of ATA which include coordination and establishing program priorities.

EQUIPMENT INCREASE

Senator Kasten: In your written testimony (pp, 13-14) you explain your position on changing the authorization ceiling on provision of equipment to countries participating in the ATA Program.

The authorization for your program, as it now stands, places a limit of $325,000 on training-related equipment assistance. You would like to see this changed to not more than "25% of the total ATA Program Budget."

If you received an appropriation of $9,840,000 for the ATA Program, that would mean up to $2,460,000 would be available for training-related equipment.

It would appear that if that occurred, the ATA Program would be changed dramatically. Wouldn't you have to take funds from training in order to finance equipment? It seems to me this would drastically change the character of the program.

Ambassador Borg: The legislation for FY '86 places a $325,000 limit on purchasing training-related equipment. However, after obtaining congressional approval to reprogram funds, $700,000 was spent in FY'85.

The language of the proposed change specifies up to 25% which ensures that the program retains its principal character as a training vehicle. This requested increase is designed to enhance hands-on training and increase our flexibility. It also underscores the high costs of the various individual items. For example, two baggage x-ray machines would cost $70,000, one cargo x-ray machine $45,000, and a walk through metal detector $4,000. Therefore, the cost of a modest equipment package for only the airport of one country could easily exceed $150,000. In deciding whether to make the equipment available we would be guided by the the level of terrorist threat and economic condition of the particular country.

Rather than dramatically changing the character of the ATA Program, an increase in funds available for equipment would make the program more effective, particularly in the long run. We are convinced that training and equipment go hand in hand.

NEW COUNTRIES

Senator Kasten: What new countries do you anticipate participating in the program in FY 1987?

Ambassador Borg: In addition to approximately 33 countries we now work with, we anticipate that an additional 12-17 countries will be participating in FY'87. Based on our current assessment, we anticipate 2 or 3 European countries, 3 or 4 from the Mediterranean area, 4 or 5 from Latin America, and 3-5 countries from Africa and Asia likely to be participating countries in FY'87.

MONITORING

Senator Kasten: Last year in answer to a question submitted for the record, you said that "we rely on the embassy for follow up action on the program which would include monitoring to ensure that the knowledge is used for the purposes intended."

Ambassador Borg: We believe this issue deserves our continuing attention. Our Embassies provide us with some feedback and on a number of specific occasions have cited instances where participants made good use of the training received. We plan in the near future to ask our Embassies in participating countries to submit more structured assessments. Our Embassies in countries where there may be some concern about using the training for the purposes intended are alert to check the names and responsibilities of the potential participants before submitting them to the Department of State. The Embassies take steps to insure that the right participants are the ones who receive the appropriate training. If for some reason an individual is found to be unacceptable, our Embassy notifies the country that the individual is not eligible to participate. This has been done on a few occasions in the past.

Senator Kasten: Given that U.S. Embassy personnel do come and go, this is not a very structured follow up system. I would suggest that State tighten up procedures to make sure knowledge gained on Anti-Terrorism training not be misused.

You must have given this some thought--What would you suggest?

Ambassador Borg: While Embassy personnel do come and go, our normal point of contact for the ATA program

is the Regional Security Officer. Because of his work with the ATA program he is able to develop and intensify contacts with local officials with responsibilities in the anti-terrorism field. These contacts in turn enable him work toward improving the response and commitment of local officials to protecting our personnel and facilities. Moreover, the RSO thus is able to apply these types of experiences gained at one post to subsequent assignments. The same is true of other Embassy personnel who work with the ATA Program.

FUNDING

Senator Kasten: Considering that in fiscal years 1983, 1984 and 1985, the Anti-Terrorism Program received $5 million in funding for the entire year, a supplemental request of $4,840,000 for FY 1986 is surprising. I am not at all sure you could absorb $11,941,000 in FY 1986.

Will you give the subcommittee more detail on what you plan to use the $4.8 million for?

Ambassador Borg: The $11.9 million budget request consists of: $7.1 million, already committed, to train up to 2,000 foreign officials with $4.8 million, as requested in the Diplomatic Security Supplemental, being used for increased emphasis on airport security to train an additional 800 to 1,000 foreign officials. The supplemental request was in response to the Minetta amendment as passed last year and was requested as a two year supplemental.

Senator Kasten: Is $9.8 million sufficient for FY 1987?

Ambassador Borg: The $9.8 million should be sufficient, based on current plans and projections.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

DIRECT BENEFITS

Senator D'Amato: Can you cite examples in this open hearing of any direct benefits we have had with the Anti-Terrorism Assistance Program in combatting terrorism?

Ambassador Borg: The most important benefit is the dialogue on counterterrorism which the program permits. When we have identified a particular problem as at Athens airport in early 1985, or another country asks us what we can do to assist them in their fight against terrorism, we have a program which we can offer. Beginning with the first discussions of a possible

program but intensifying as specific training programs are offered, we find other governments much more open to specific and general cooperative measures against terrorism.

In addition to the resolution of terrorist conflicts, another major focus of the program is the prevention and deterrence of terrorist attacks. A number of participating countries have informed our Embassies that their overall effectiveness has been improved as a direct result of the ATA Program. More specifically, one Latin American country indicated that the training it received under the ATA program proved to be instrumental in the peaceful resolution of a hostage incident in contrast to violent outcomes in previous ones. In an Asian country the first assignment of a group of returned trainees was to protect Secretary of State Shultz. A Far East country is also using the ATA program as the primary means to upgrade the security of its international airport. Posts abroad also inform us of the significantly increased cooperation with the local law enforcement officials with whom they interact.

INTEREST IN ATA PROGRAM

Senator D'Amato: With the mixed international reaction on Libya, do you expect increased or decreased interest in the ATA Program?

Mr. Borg: We have had recent evidence of increased interest in the ATA Program. While we can't attribute this directly to action against Libya, we believe that the entire series of major terrorist incidents has served to keep a focus on terrorism in general and thus the ATA program. More and more countries are realizing that terrorism is an international problem that must be combatted in that context.

Senator D'Amato: If there is increased interest in the Program, will $9.84 million be adequate for fiscal year 1987?

Mr. Borg: Based on current plans and projections, $9.84 million should be sufficient. Our budget submission details how we plan to spend these funds.

DISPARITY IN NUMBERS TRAINED

Senator D'Amato: For the ATA Program the administration has requested a $4.8 million FY 86 supplemental, most of which is for Phase III training courses. For FY 86, you have budgeted $10.1 million for the expected 1,200 participants for Phase III. Yet, you have budgeted only $7.9 million for the expected 2,000 participants in fiscal year 1987. How do you reconcile this disparity?

Ambassador Borg: This disparity in the training course narrative showing the numbers of foreign officials to be trained, as reflected in the FY 1987 Budget request, results from the inclusion of the 4.8 million dollar amount, requested in the Diplomatic Security Supplemental being added to the original request without the text being changed to reflect the additional numbers to be trained.

The FY 1987 Budget request of $9.8 million will provide funding ($7.9 million for training courses) to train approximately 2,000 foreign officials and carry out the other functions of the program.

COST-SHARING

Senator D'Amato: Countries such as the United Kingdom and Belgium participated in Phase I of the Program. Does the United States pay for part or all of the per diem and transportation cost for these participants?

Ambassador Borg: Belgium has not yet formally participated in Phase I. However, a senior Belgian official did visit Washington, D.C. and discussed certain aspects of the ATA Program. The government of Belgium paid all costs associated with this visit. The United Kingdom paid international airfare and per diem for its participants. Although there have been exceptions, the United States generally pays in-country per diem.

Senator D'Amato: What criteria is used to determine whether the U.S. picks up the tab?

Ambassador Borg: We assess the importance of the country to the U.S., the level of terrorist threat within the country, as well as the economic ability of the country to pay. In those situations in which a participating country is unable to pay all of its international travel costs, the U.S. tries to work out some type of cost-sharing formula.

Senator D'Amato: Does the State Department pay for expenses of other U.S. agencies involved in the program?

Ambassador Borg: The ATA Program, by reimbursable agreement, reimburses cooperating and supporting agencies for their additional costs in supporting the program.

Questions Submitted by Senator Specter

FOREIGN AID PROGRAMS AND AMERICAN SAFETY

Senator Specter: The Administration is seeking additional funds for beefing up embassy security worldwide. While I support this effort on behalf of our diplomatic personnel, I am also concerned about the safety of ordinary Americans abroad, particularly with respect to foreign airports and ports. What is being done along these lines and is the State Department taking advantage of the leverage the substantial aid for foreign countries contained in this budget request providers to ensure the safety of Americans living and traveling in recipient countries?

Ambassador Borg: We are acting in both multilateral and bilateral arenas to help improve the security at foreign airports and ports. In the multilateral context, we have been active in the International Civil Aviation Organization (ICAO) program to improve and broaden security standards for international airports. A similar effort is underway in the International Maritime Organization (IMO) where we initiated efforts last year to establish security standards for passenger service. Good progress is being made in these two international organizations.

In the bilateral field, two types of aid programs have a bearing on this question. One is the more traditional and general economic and security assistance program. The relationships developing from these assistance programs no doubt have an impact in helping improve working relationships, including on terrorism-related matters, although it is not possible to quantify this. Another factor is that host countries have the primary responsibility for the security of their own citizens and of visitors from other countries. In some situations, the economic and security assistance may help free up other resources which they then can allocate, for example, for protection of airports or embassies.

The second and more specific type of assistance is the Anti-Terrorism Assistance program, (ATA). In two years over 2,500 civilian officials from 33 foreign governments have participated in the program. The State Department administrators the program and utilizes the facilities of other federal and local agencies. The program helps other countries improve their abilities to protect not only their own citizens but also Americans, and other living or traveling there. The program is tailored to the needs and priorities of each country and courses in airport and port security are made available. The ATA program also helps develop closer cooperation with the U.S. in combatting terrorism. Thus, the ATA programs has benefits to the U.S. as well as to the recipient country.

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PLO OPERATIONS IN THE U. S.

Senator Specter: Last week, the New York Times (N.Y. Times, 4/13/86) reported that PLO offices in Europe are supporting terrorist operations by "recruiting, renting safehouses, providing identity documents. choosing potential targets and collecting operational intelligence". It also asserted that PLO offices have specialists in terrorism who are ready to do violence.

The United States permits the PLO to maintain an office just a few blocks from here on 818 18th Street, N.W. Can you assure this committee that the PLO office in our nation's capitol is not involved in supporting terrorism and will not be used to foment terrorist violence in the U.S.?

PLO OPERATIONS IN THE U. S.

Ambassador Borg: The PLO Information office is registered under the Foreign Agents Registration Act of

1938, as amended, with the Department of Justice and is subject to the provisions of that legislation. The FBI assures us that there is no information that would connect the PLO office to terrorist violence in the United States and no evidence suggesting that the office is planning to involve itself in future terrorist acts.

PROSECUTION PROVISIONS FOR AMERICAN MURDERS

Senator Specter: On January 29, 1986, following the tragic hijacking of the Egyptian airliner which resulted in the murder of American Scarlett Roggenkamp and others, I wrote the State and Justice Departments urging all a possible action to secure the extradition of Omar Moahmmed Ali Rezaq, who is charged by the government of Malta with responsibility for this terrorist act. On April 9, 1986, the State Department responded that we have in fact submitted a request for provisional arrest of this terrorist suspect for extradition to the U.S., but that we asked Malta to hold our request in abeyance pending the hijacker's prosecution in Malta and possible prosecution in Egypt. Under what circumstances will we seek prompt extradition for primary prosecution of terrorists who murder Americans abroad?

Ambassador Borg: The terrorist murder of a US citizen abroad is now a criminal offense under US law. Previously, the United States had established jurisdiction to prosecute other international terrorist offenses. In most instances this criminal jurisdiction was established in fulfillment of US treaty obligations under various international conventions. These conventions generally create obligations for parties either to extradite suspects located in their territory or to submit the case to their competent authorities for purposes of prosecution.

Inevitably, a number of States have concurrent jurisdiction to prosecute those accused of the kinds of crimes described above; i.e., equal legal authority to prosecute. Which state actually prosecutes an accused terrorist would be decided, in the first instance, by that state in whose territory he is apprehended. As you know, some States may choose to prosecute such offenders, whereas others may prefer to extradite them to another state prepared to do so. In addition, there may be instances in which the state prosecuting a terrorist offender may, at the end of its process, consider extradition to another state for purposes of further prosecution, subject to any prior jeopardy or non bis in idem restrictions that may apply.

Whenever a terrorist suspect abroad is identified and is the subject of a US arrest warrant, the United States takes prompt measures to seek his detention for extradition to and prosecution in the United States. Recognizing that the Requested State may exercise its option to prosecute and that third states may have

competing claims, the United States makes its request to ensure at a minimum that the suspect is not prematurely released, and to preserve the United States's option to prosecute the suspect at a future date.

The United States is less concerned with being the first to prosecute such offenders and more concerned with ensuring that such offenders are effectively prosecuted and punished.

PROSECUTION OF TERRORIST MURDERERS OF AMERICANS

Senator Specter: What is the status of our efforts to prosecute other terrorist murders of Americans, including the murderers of Navy diver Robert Stethem during the TWA hijacking, the murderers of Leon Klinghoffer during the piracy of the Achille Lauro, and the murders of three generations of the Klug family resulting from the bombing of the TWA flight out of Rome earlier this month?

Ambassador Borg: In coordination with the Department of State, the Department of Justice actively investigates all international terrorist incidents over which the United States has jurisdiction to prosecute. This includes the hijackings of TWA 847, the Achille Lauro and Egyptair, the bombing of TWA 840 and the murder of US citizens abroad. Thus far US arrest warrants have been issued for certain individuals believed responsible for the hijackings, and investigations continue in cooperation with various governments concerned. As those investigations are subject to grand jury secrecy rules, further inquiry should be addressed directly to the Department of Justice.

With respect to prosecutions by foreign jurisdictions, the Italian prosecution of the Achille Lauro hijackers has lead to the conviction of eleven individuals for their role in the crimes connected to the taking of the Achille Lauro. One of the original four hijackers remains to be prosecuted as a minor under Italian law. Appeals are continuing in the case. The prosecution in Malta of the surviving Egyptair hijacker is progressing. It is our understanding that the trial has been postponed to the Fall in order to permit the prosecutors to collect further evidence available in foreign jurisdictions. We continue to monitor the case and to lend our support to the effective prosecution and punishment of the hijacker in Malta.

Questions Submitted by Senator Inouye

EUROPEAN RESPONSIVENESS

Senator Inouye: How responsive have European countries been to appeals by your office? Do they participate in the Anti-Terrorism Assistance Program?

Ambassador Borg: The United Kingdom, the Netherlands, Italy, Denmark, Portugal, Greece, and Turkey have participated in Phase I of the ATA program; three have participated in Phase III training (Portugal, Greece and Turkey). A number of other European countries cooperate with the U.S. on a broad spectrum of matters related to counterterrorism, although not in the context of the ATA program.

EUROPEAN CONTRIBUTIONS

Senator Inouye: Do European countries contribute to the program?

Ambassador Borg: Yes, some pay international air travel and per diem expenses, whereas in other cases we have negotiated some type of cost-sharing agreement.

TRAINING FOR EUROPEAN COUNTRIES

Senator Inouye: Have you provided training to personnel from any European countries? Was this reimbursable training?

Ambassador Borg: We have provided training assistance under phase III to three European countries (Portugal, Greece, and Turkey). In each case a cost-sharing arrangement has been worked out to provide training in the U.S.

RECENT TERRORIST INCIDENTS

Senator Inouye: You note that 32 countries have participated in the Anti-Terrorism Program.

Were any of these countries involved in any way in the recent terrorist incidents -- I have in mind the Berlin disco bombing, the Athens (sic - Rome?) and the Vienna airport shootings, and the Achille Lauro hijacking?

Did any of these countries make effective use of their training in these incidents?

Ambassador Borg: Of the countries involved in the above-mentioned incidents, only Italy and Egypt have participated in the ATA Program. Italy participated in Phase I and did not receive any of the specific training

courses. We believe that the close counterterrorism cooperation which we have with Italy dates from their participation in the policy seminar in November 1984.

Egypt's involvement in the Achille Lauro incident was primarily after the terrorist incident was ended by the surrender of the terrorists to the government of Egypt.

EVALUATION AND REVIEW

Senator Inouye: This program was initiated in 1984.

Have you had an opportunity to evaluate and perhaps revise the training program?

Ambassador Borg: We receive regular feedback from our posts in the participating countries. Students who come to the U.S. to participate in the training provide critiques, and escort/interpreters also provide inputs on the training.

ATA staff personnel have also monitored courses offered, particularly in the Washington area.

We are in the process of devising a training management system to evaluate and revise the training program. We have a management specialist in the ATA program who has prepared and distributed material dealing with course preparation and content.

STRENGTHENING CAPABILITIES

Senator Inouye: With some specificity, can you tell the committee how you have helped to strengthen anti-terrorism capabilities:

Ambassador Borg: A number of participating countries have informed our embassies that their overall effectiveness has been improved as a direct result of the ATA program. Posts abroad also inform us of significantly increased cooperation with local law enforcement officials with whom they interact. More specifically, one Latin American country indicated that the training it received under the program proved to be instrumental in the peaceful resolution of a hostage incident in contrast to violent outcomes in previous ones. That same country also attributes other police successes to ATA training. In an Asian country the first assignment of a group of returned trainees was to protect Secretary of State Shultz. A Far East country is also using the ATA program as the primary means to upgrade the security of its international airport. In addition, we have learned that bomb dog training in one country resulted in resolving several incidents. One country utilized its VIP protection training to

safeguard President Reagan. Other countries used similar training during a visit by another head of state. Training and training-related equipment provided by the ATA program also resulted in increased security at one airport and the formation of an airport police force at another.

THREAT OF GLOBAL TERRORISM

Senator Inouye: Using your professional judgment, and basing your response on what your office suggests to other countries to improve their anti-terrorism efforts, do you think the United States is prepared to deal with the threat of global terrorism?

Ambassador Borg: A major factor in the ability of the U.S. to deal with terrorism around the world is the need for international cooperation. Each country bears the primary responsibility for the security within its boundaries and for the protection of its own citizens and visitors or residents of other countries. For a variety of reasons, some countries have been less energetic in the past than we thought necessary to deal with the international terrorist threat. During the past year since the TWA 847 hijacking, but particularly since the attacks on Rome and Vienna airports on Dec. 27, 1985, and following the Libyan-related activities in April and May such as the bombing of the Berlin disco, important steps have been taken by other countries to improve their anti-terrorism efforts. Security measures at airports and other places have been improved. Many European countries also have tightened up on visa applications and scrutiny of potential terrorists and have taken other measures to respond to the increased terrorist-related activities by Libya earlier this year. For example, potential attacks on the U.S. Embassy in Paris and the U.S. Officers' Club in Ankara were thwarted by local officials in cooperation with ours.

Although progress has been made, more remains to be done, and we are keeping up our contacts with European and other countries with a view toward taking additional anti-terrorism measures. Terrorism by its very nature tries to take advantage of the element of surprise, and terrorists have demonstrated that they too are trying to improve their methods and techniques. While we are constantly improving our efforts and are aware of scores of potential terrorist incidents that have been thwarted or aborted in the past year and half due to combinations of intelligence and security steps, one can never rule out the possibility of terrorists succeeding in conducting another major event. The elements of initiative and surprise are with them, and there are too many potential targets for other countries and the U.S. to protect with 100 per cent certainty against determined and skilled terrorists.

Senator Inouye: Using your professional judgment and basing on what your office suggests to other countries to improve their anti- terrorism efforts, do you think the United States is prepared to deal with the threat of global terrorism?

Ambassador Borg: A major factor in the ability of the U.S. in dealing with terrorism around the world is the need for international cooperation and the attitude of other countries. Each country bears the primary responsibility for the security within its boundaries, for the protection of its own citizens and visitors or residents of other countries. For a variety of reasons, some countries have been less energetic in the past than we thought necessary to deal with the international terrorist threat. During the past year since the TWA 847 hijacking and particularly since the attacks on Rome and Vienna airports on Dec. 27, 1985, and the Libyan-related activities in April and May, important steps have been taken by other countries to improve their anti-terrorism efforts. Security measures at airports and other places have been improved. Many European countries also have tightened up on visa applications and scrutiny of potential terrorist, and taken other measures to respond to the increased terrorist-related activities by Libya earlier this year. For example, potential attacks on the U.S. Embassy in Paris and the U.S. Air Force Officers' Club in Ankara were thwarted by local officials in cooperation with ours. Although progress has been made, more remains to be done, and we are keeping up our contacts with European and other countries with a view of additional anti-terrorism measures. Terrorism, by its very nature, tries to take advantage of the elements of surprise and the terrorist have demonstrated that they too are trying to improve their methods and techniques. In effect, while we are constantly improving our efforts, and know of about 180 potential terrorist incidents which have been thwarted or aborted in the past year and half due to combinations of intelligence and security steps, but one can never rule out the possibility of terrorists succeeding in conducting another major event. The elements of initiative and surprise are with them, and there are too many potential targets for other countries and the U.S. to protect with 100 per cent certainty against determined and skilled terrorists.

Senator Inouye: Have we taken the measures necessary to make our airports and public buildings secure from terrorists?

Ambassador Borg: While it is impossible to guarantee absolute security against determined terrorists, major efforts are being made to deter and deal with potential threats. Information on potential threats and techniques for improving security is shared with relevant U.S. Government agencies. The primary

responsibility for security of our airports and public buildings in the U.S. lies with domestic law enforcement organizations in connection with agencies such as the FAA and General Services Administration, and they have taken a number of steps to improve security. More details are available from them.

Senator Inouye: Do you find that the American people recognize the terrorist threat to America, and do you find that we are doing enough to combat that threat? (The question is addressed to our domestic response, not to our diplomatic security initiatives.) What is your evidence?

Ambassador Borg: The American people seem fully aware of the terrorist threat, and polls indicate they consider it one of the major issues confronting the U.S. We have been making a major effort on a variety of fronts--domestic and international, unilateral, bilateral, and multilateral--to combat the terrorist threat. The terrorist threat itself continues to change and evolve as new groups become active and as the various terrorists shift their tactics and targets to try to overcome our improved defenses. Thus the U.S. Government must continue to adapt to a changing situation and try to anticipate developments. We are continually working on ways to refine and strengthen our efforts. The number of terrorist incidents that occur within the U.S. continues to decrease, from a high of 51 in 1983 to a total of only 7 in 1985, with 12 casualties last year. None of the incidents that occurred last year had international links, although there were connections involving Sikhs, Libyans etc., among the 23 incidents prevented in 1985.

Questions Submitted by Senator Johnston

PROCEDURAL SAFEGUARDS

Senator Johnston: Some FY 86 participating countries--at least the UK, Italy and Egypt--have had problems in their countries this year. In the UK and Italy, neither detected problems over the last several weeks: to wit, the explosion on the TWA Cairo-Rome-Athens route and last week's near explosion on the El Al jet out of Heathrow. In Egypt there is an apparent lack of mob control. Can you give us some assessment of these incidents-- i.e., Were they aberrations? Are any procedural safeguards in place as a result of the program which were not there before? Can you provide us with some illustrations?

Ambassador Borg: The U.K., Italy, and Egypt have taken measures in the past year to improve security; however, in any security system, the potential for

breaches of security exists. Only Egypt has actually participated in training courses and has received courses in such areas as VIP protection, explosives detection, incident scene management, and airport security. Consequently, the Egyptians are now more trained and better able to respond to incidents.

REACTION TO LIBYAN BOMBING

Senator Johnston: Have any of the 70 countries approved for participation expressed reconsideration after last week's U.S. bombing in Tripoli? (One of the program's aims is to strengthen world pressure against terrorism.) Do their reactions play any part in your apportionment of assistance in the counter-intelligence (sic) program?

Ambassador Borg: None of the 73 countries approved have, to our knowledge, expressed second thoughts about participation in the program. We would be mindful of the reaction of any participating country, within limits, because participation in the program hinges in part on a friendly attitude toward the U.S. and a commitment to fight terrorism.

ACTIONS THWARTED

Senator Johnston: Conversely, were any terrorist actions thwarted in any participating countries that you can tell us about in this open hearing?

Mr. Borg: It is difficult to go into detail in public, but a number of potential terrorist attacks have been thwarted, or aborted, or otherwise did not proceed. One estimate is about 180 in the past year and a half. Some of the ones we can cite did take place in countries involved in one phase or another of the ATA program. Incidents we can cite include the thwarted bombings of the Officer's Club in Ankara, Turkey this year, the attempted attack on the El Al plane in London, and thwarted bombings against American targets in Colombia last year. However, this is a question best dealt with by intelligence officials.

MARITIME SECURITY

Senator Johnston: Are any programs or training courses underway in maritime security? Is the U.S a model in this area or are there any good security systems in place in any other country?

Ambassador Borg: Yes, maritime security training courses have been conducted under the ATA Program. The U.S. has some good harbor police security systems in place; though none, to our knowledge, is terrorist-proof. On the other hand, some of the

ies we deal with have a limited concept of port security, and have not been able to devote much effort to improved security within their ports. We find that, for these countries, the U.S. can be helpful as a model in such places as New York, Baltimore, and Charleston, S.C. However, many of the more advanced countries have acknowledged that the safeguarding of ports is an extremely difficult and challenging task and, as this is a relatively new subject, we have not had the opportunity to assess security systems in other countries that might serve as models.

WEALTHIER COUNTRIES' CONTRIBUTION

Senator Johnston: To what extent are wealthier participating countries sharing the costs of training, travel, etc.?

Ambassador Borg: We require that the participating countries provide at least the international transportation to the U.S. for their officials attending the executive seminars and the training courses. The developed and wealthier countries, e.g., Brunei, United Kingdom and Italy paid international airfare and p their visiting officials.

COUNTER-TERRORISM INTELLIGENCE

Senator Johnston: Has the U.S. been on the receiving end of the exchange of intelligence about terrorism? Is there an effective, timely system in place for exchanging such sensitive information?

Ambassador Borg: Our counter-terrorism intelligence effort is a two way street. With some good friends such as the United Kingdom, we receive perhaps as much information as we provide them. We seek in all relationships an exchange. We do not seek the creation of any new channels, but rather the intensification of the effort, the upgrading of the priority on terrorism, and the use of as many channels as possible for the exchange (such as security officers, customs officials, etc. in addition to the intelligence agencies).

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SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee stands in recess until May 1, when we will hear testimony from the environmental implications of long-term multilateral developmental bank lending policies.

Thank you.

Mr. BORG. Thank you.

[Whereupon, at 3:40 p.m., Tuesday, April 22, the subcommittee was recessed, to reconvene May 1, 1986.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1987

THURSDAY, MAY 15, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr., (chairman) presiding.

Present: Senators Kasten, D'Amato, Specter, Inouye, and Johnston.

UNITED NATIONS

U.S. PERMANENT REPRESENTATIVE

STATEMENT OF HON. VERNON A. WALTERS, U.S. PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

INTRODUCTION OF WITNESSES

Senator KASTEN. The subcommittee will come to order.

This morning, we will complete our regular budgetary hearings on the administration's 1987 request for programs under the jurisdiction of this subcommittee, with testimony from the Honorable Vernon A. Walters, the U.S. Permanent Representative to the United Nations, and Alan Keyes, Assistant Secretary of State for International Organization Affairs.

U.N. ACCOMPLISHMENTS

General Walters, before you begin your testimony, let me say that you are to be commended for your very exemplary performance during and after the Libyan raid in response to that country's terrorist activities against Americans.

Your work, both before and afterward, defending the U.S. position, was very well done, and America has every right to be proud of you for the work that you are doing.

Often, I think, when you are working in diplomacy, or in foreign affairs, the people inside the Beltway have a great appreciation and understanding for what people are doing, and the people outside of the Beltway, in Wausau, WI, for example, might not have much of an understanding at all of what you did or are doing.

This case was an example of just the opposite. The same kind of respect and admiration that you have among people who have been following you and your career, understood and respected the work that you have done, but it was also understood in Wausau, WI, and across the United States of America. You have great respect and great support from the American people.

I would like to ask you to summarize your statement, or go ahead and present your statement, and at that point, we will also move forward with questions from members of the committee.

Before we begin, I would like to ask Senator Inouye if he has any opening statement or comments.

Senator INOUYE. Thank you. I would just like to join the chairman in welcoming our U.N. team to today's hearing.

Senator KASTEN. General Walters, if you would like to go ahead now, and present your testimony. The entire statement will be part of the record, and you may wish to summarize part of it, otherwise go ahead as you would prefer.

General WALTERS. Mr. Chairman, Senator, thank you very much for your kind words. I must just tell you that I had an interesting experience just the other day. I was at a reception in New York, and the flashbulbs were flashing. I shook hands with the mayor, and as I stepped away from him, a young lady stepped up with a pad and said: "I am from the press. Can I ask you a few questions?" I said, "Sure." She looked around her and she said: "Who are you?" [Laughter.]

ACTIVITIES OF UNDP AND UNICEF

General WALTERS. Mr. Chairman, and members of the committee, it is a pleasure to appear before you today to discuss two of the more effective and better known of the U.N. operational agencies—UNDP and UNICEF.

As you are aware, these agencies have their headquarter offices in New York and are financed entirely from voluntary contributions of governments, from private sector sources and, in the case of UNICEF, from the sale of greeting cards. Together these two agencies put over $1 billion in resources into the developing world last year, and are committing an increasingly larger share of their program to much-needed recovery and long-term growth of hard-pressed Africa.

These agencies, different in their mandate and program orientation, have been very responsive to U.S. interests and are regarded as models of operational effectiveness not only for the U.N. system, but for the entire international development community.

UNDP

Let me turn first to UNDP, where William Draper has taken over the reins this month from the popular and energetic Brad Morse. This changing of the guard went smoothly with no dissent among the member nations of the General Assembly, demonstrating very clearly the importance of continued American leadership at an agency which plays

the chief coordinating role for operational development activities undertaken by the whole U.N. system.

Mr. Chairman, the extensive UNDP field network was critical in expediting the massive emergency assistance flows to Africa during last year's drought. Through a pooling of resources and experience, this agency, along with UNICEF and the World Food Program, as well as the very generous response of the people of the United States, kept millions of Africans from starving to death during that terrible and devastating drought.

Turning to recovery and long-term development in Sub-Saharan Africa, UNDP is assisting African economic planners and coordinating multilateral and bilateral donor inputs through the much improved Round Table process. We are pleased to inform this committee that the U.N. Development Program has been particularly responsive over the past 2 years to United States and other Western donor concerns for more effective management control of its large programs. This has led to the tightening up of the internal headquarters systems, as well as to the establishment of the Working Group of the agency's Governing Council, which meets regularly to advise on operational and program matters.

I cite these as some few examples of UNDP's operational importance to the United States as well as its accessibility and responsiveness to the major donors. The U.S. Mission finds itself involved in a variety of UNDP matters on a daily basis, and has been assisting William Draper in easing into his new job as Administrator—in fact, I met with him extensively yesterday—a position, which as I noted before, assures continued U.S. leadership of this central agency. I should also add that U.S. nationals enjoy other key positions in the agency such as Director of Administration and Finance, and Director of Centrally Funded Programs, and that the United States has traditionally enjoyed a strong position with the agency as a source for technical services and for project-related equipment.

UNICEF

With regard to UNICEF, Mr. Chairman, I believe it is well known that this important agency's Child Development Strategy compliments our own bilateral efforts in Child Survival. These efforts include low-cost immunization, oral rehydration therapy, and other techniques that have resulted in saving over 1 million lives of Third World children last year. Such results are not only dramatic, but they bring new hope to many often forgotten corners of the world where high infant mortality is only another factor in the grim way of life.

Through the expanded program of immunization and its goal of universal immunization by the year 2000, UNICEF has helped to organize national vaccination programs in countries such as Colombia, Ecuador, Turkey, and Nigeria, mobilizing the highest levels of those nations' political leadership and all levels of society. In El Salvador and Uganda, cease-fires on contesting sides allowed these national campaigns to reach all children.

Mr. Chairman, not only has UNICEF promoted along with our own AID the importance of low-cost health techniques to the forefront of public awareness, it is also using the campaign style approach as a wedge to develop longer term, sustainable health systems benefiting mothers and children.

Mr. Chairman, the U.S. Mission, the State Department, and AID collaborated on an evaluation of UNICEF program activities in a number of countries where AID is also active. While the results of this evaluation are not yet compiled and analyzed, the messages in from our embassies are overwhelmingly positive about UNICEF's program effectiveness, its high professionalism and its dedication to service. The evaluation also highlights the close relationship UNICEF enjoys with our AID health and nutrition professionals in the field.

I cannot stress this close association enough. The heads of UNICEF and AID, as well as their key staff, meet regularly to foster and nurture the partnership, and I believe this bodes well for future major breakthroughs in enhancing the well-being and health of the world's children.

EMERGENCY RELIEF EFFORTS OF UNICEF

Mr. Chairman, we should not forget either the important role UNICEF has played in a number of emergency relief efforts as well as its longer term water, sanitation, nutrition, and health outreach programs in Africa where the Children's Fund has increased its capacity on the ground by two to three times over the past 3 years. UNICEF is also involved, along with a number of others, including the IMF, to assure that important economic restructuring programs have a minimal impact on vulnerable groups such as children and their mothers.

Mr. Chairman, while we all know too well the deleterious effect politicization of U.N. agencies and committees has had on the effectiveness and public support for specific U.N. programs, let me say that UNICEF is one of the few agencies of the system that has, on its Executive Board, kept the focus on operational matters, and not on irrelevant and extraneous political debates.

Mr. Chairman, this is not always easy or always 100 percent possible in the dynamics of any committee.

Yet, I believe that UNICEF is one of the few international bodies which can honor an Israeli citizen, as it did Mrs. Zena Harmon, a former Board Chairman, and a former member of the Knesset, during its 1985 session, and have all nations from all regions remain in their seats to applaud.

Mr. Chairman, it is apparent from my remarks this morning that we endorse the continued support by this committee of two very important agencies of the United Nations, which continue not only to serve our interests well, but to bring much needed relief and hope to the people of the developing world.

Thank you, Mr. Chairman.

[The statement of General Walters follows:]

PREPARED STATEMENT OF AMBASSADOR VERNON A. WALTERS

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These agencies, different in their mandates and program orientation, have been very responsive to U.S. interest and are regarded as models of operational effectiveness not only for the U.N. system, but for the entire international development community.

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PROBLEMS FACED IN UNITED NATIONS

Senator KASTEN. General Walters, thank you very much.

We are concerned about UNDP and UNICEF, but I think that most of the questions this morning will go to a much wider set of problems. You bumped up against them as you described UNICEF as being relatively free of some of the political problems that beset the rest of the U.N. organizations. The focus of this subcommittee, at least, is going to be not on the good work that UNDP and UNICEF have been doing, but on the extraordinary set of problems that we face in the United Nations.

I might say, at a time when we are seeing tremendous pressure on the foreign aid budget, when we are seeing more and more scrutiny in terms of our ability to meet our commitments overseas, our security assistance and our economic assistance commitments, there is also at this time more and more attention on the voting records of so many of our so-called friends around the world.

U.N. VOTING PRACTICES REPORT

It is my understanding that the White House has now signed off on the U.N. voting practices report. Although we have not yet received it officially, my understanding, with phone conversations through staff yesterday, that the White House, in fact, has signed off on it, and we have chart and summary information.

We have the general information, and we have been able to make some general evaluations. The report indicates that on the average, the nations voting in the General Assembly last year opposed us, voted against us nearly 80 percent of the time. Again this year, as was the case in the previous two reports, Israel is our strongest supporter, voting with the United States of America 91.5 percent of the time.

A number of our NATO allies, likewise, have high marks, and it is especially gratifying, and actually surprising, when you consider the action disallowing flights over their country. France is up dramatically from the previous year. They went from 72 percent to 82.7 percent in our support.

Some of our other NATO allies don't do so well, with Greece being the country which provides us the least amount of support among our NATO partners.

There are a number of so-called friends of the United States that likewise have very poor voting records, and who also receive substantial amounts of U.S. assistance. I think that it is fair to say that this subcommittee is going to come closer and closer to linking U.S. assistance, bilateral assistance with these votes.

For example, Egypt, a major recipient, opposed us 85 percent of the time. The Philippines gave us just 22 percent of their votes. India opposed us 91 percent of the time. Of current interest because of the controversy over arms sales, it is interesting to note, I think, that Saudi Arabia voted against the U.S. position 86 percent of the time.

As I mentioned before, this year foreign assistance is going to be very difficult to get through Congress, and obviously the action already given, the available resources for this purpose are going to be quite limited.

As the chairman of this committee, I intend to factor in this particular report when we make decisions on the foreign assistance program overall, something which the legislation already suggests should be done.

Do you agree that we should take into account these voting practices in the United Nations in the course of determining foreign assistance levels?

General WALTERS. Yes, I do, Mr. Chairman. I think for too long there has been no real direct relationship. One of the things that I have been saying, as I go around the world now, visiting countries, is that you must understand that in the future, I don't say that the U.S. assistance programs will be totally contingent, but if you think that you can vote against us with impunity, that time is past.

PUBLIC AND PRIVATE SUPPORT OF U.S. POLICIES

Senator KASTEN. Your predecessor, Jeane Kirkpatrick, worked very hard to change the way the United States approaches things in the United Nations. I had the opportunity to serve as a Delegate to the 1982 General Assembly, and I must say that it is a real eye-opener, to go through the day-to-day activities around the United Nations.

She was changing the way that the United States approaches things in the United Nations, especially the tendency of so-called friends of ours at the United Nations to publicly condemn us over various policies, or in various forums, to go into the Third Committee, or whatever, and make some rabble-rousing speech, and then to turn around in private, later that day at a cocktail party, or at lunch, or the next afternoon at a reception, and privately say: You understand, don't you, this is only for public consumption. We have to say these things, we don't really mean them. You understand, don't you?

Jeane didn't buy that line. Basically, she said that she worked for a position that if you support us, you support us publicly as well as privately. It is an approach that I strongly support. There is a great deal of support for this kind of an approach in Congress. Therefore, we are interested especially in hearing your views on this whole set of issues and the idea that people can do one thing publicly and one thing privately.

Do you also believe that we deserve support both publicly and privately, and that we are going to look to the public statements and the public support, or lack of support?

General WALTERS. I absolutely believe that the two are inseparable. I do not believe that hypocrisy can be justified under any circumstances, but I hate to tell you how prevalent it still is.

On the recent Libyan business, for instance, it was a prime case in point of many people saying: He is a terrible man, and everything else; yet, speaking or voting against us.

Yesterday, a representative of an African country said to me: "Are you still coming to my country?" I had planned to visit there. I said, no. He said, "Why not?" I said, I may come later on, but you must understand right now there is considerable resentment in this country at the position taken by your country, and the denunciation that you made of my country in the Security Council on the occasion of the debate on Libya.

Senator KASTEN. How did we get to this point where at least the assumption made by many of our so-called friends was that, in fact, all that was necessary to appease the United States was to make the right comment at the cocktail party, and that somehow we would let it go by, with the statements in the Third Committee, or the statements in the General Assembly, or with the press releases coming out?

How was this established, because it seems to me that it has never been that way, for example, for the Soviet Union?

General WALTERS. No, but it has been going on for a long time vis-a-vis us, because it has been perceived in the past that taking such a posi-

tion doesn't really cost them anything vis-a-vis the United States. Therefore, it is safe to denounce the United States publicly, and try to reassure us privately.

I refuse to accept that. I do not believe that you can separate the two. If you are against us, speak up against us. If you are for us, speak up for us. But that is very hard to do.

One of the astonishing things to me, when I came to the United Nations, is the number of countries that vote against us more often than the Soviet Union. At least in certain areas like fiscal restraint, budgetary seriousness, and nonproliferation of nuclear weapons, there is a certain coincidence. I don't know what it is, but I think that it is something like 12 or 14 countries that voted against us more often than the Soviet Union.

If you will notice, there is one curious thing. We have variations from Israel's 95 down to Greece's less than 50 percent support for us on our side, but if you look at the voting practices of the Warsaw Pact countries, there is no deviation, and if there is, it is a fraction of 1 percent. I guess that is fundamentally the difference between the democratic alliance and the totalitarian alliance.

Senator KASTEN. Senator Inouye.

Senator INOUYE. Mr. Chairman, first I would like to associate myself with your remarks, and with your questioning. I was very pleased by your candid response, sir.

General WALTERS. Thank you.

UNDP AND UNICEF

Senator INOUYE. I would like to go back to the two agencies that you have focused on, UNDP and UNICEF.

I was rather pleased to note the choice of your words, "two of the more effective and better known of the U.N. operational agencies—UNDP and UNICEF," and that "they have been responsive to U.S. interests, and are regarded as models of operational effectiveness, not only for the U.N. system, but for the entire international development community."

In view of this high praise, I feel rather compelled to ask you, if that is the case, why has the administration proposed to rescind the funds that have been provided by Congress for fiscal year 1986?

Furthermore, why has the administration proposed to further reduce the funding for these two agencies for fiscal year 1987?

General WALTERS. Senator, as you know, we have been criticized in the past by the Congress for asking for low sums of money on these things. But we are conscious that the Congress intends this to be a year of economy, and we are conscious that we must reflect, even in the United Nations, the determination and, of course, the law requiring the balancing of the budget.

The UNDP, specifically, is in a fairly good position in that they have a considerable surplus on hand. That is a rare thing in an international organization; I don't know of any other off the top of my head that

does, although a large part of that surplus is committed to the 1987 programs.

I believe that asking for lower funds in both cases has been—in the case of the UNDP, because we asked for more in the case of UNICEF—is a reflection of the administration's understanding of the intent of Congress to try to reduce the total overall expenditures on all of these programs.

Just as we have, by statute and by law, been several times to the United Nations to tell them that the United States is withholding its contribution, or sequestering certain funds. In fact, I have been four or five times to do that. Certainly, it has been driven home to me that it is the intention of the Congress to reduce across the board the expenditures in connection with these organizations.

U.N. FINANCIAL CRISIS

Senator INOUYE. In recent weeks and months, we have been hearing of the so-called financial crisis that is now in the United Nations. Is this accurate and, if so, what are the dimensions of this so-called financial crisis being faced by the United Nations?

General WALTERS. They are quite large, Senator. We have been trying for many years to bring home to the United Nations the need for fiscal responsibility. The salaries there are well above the pattern of the U.S. Civil Service upon which they were originally patterned when the United Nations was founded in 1945.

Senator INOUYE. Could you give us a table of those salary levels?

General WALTERS. I don't have it with me, but I will give it to you, Senator.

[The information follows:]

SALARY SCALES FOR THE PROFESSIONAL AND HIGHER CATEGORIES SHOWING ANNUAL GROSS SALARIES AND THE NET EQUIVALENTS AFTER APPLICATION OF STAFF ASSESSMENT

(In United States dollars)

(Effective 1 January 1985)

Level	Steps												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII
Under-Secretary-General													
USG GROSS	121 840												
NET D	64 536.95												
NET S	58 296.67												
Assistant Secretary-General													
ASG GROSS	107 889												
NET D	59 203.09												
NET S	53 865.76												
Director													
D-2 GROSS	81 262	85 471	89 102	90 606									
NET D	49 495.67	50 441.42	51 606.74	52 551.63									
NET S	45 287.27	46 300.21	47 221.57	48 156.28									
Principal Officer													
D-1 GROSS	69 840	72 044	74 220	76 468	78 660	80 843	82 986						
NET D	43 661.09	44 452.67	45 431.91	46 416.70	47 393.37	48 353.88	49 284.77						
NET S	40 042.12	40 936.75	41 820.23	42 707.33	43 586.34	44 450.80	45 282.51						
Senior Officer													
P-5 GROSS	60 816	62 578	64 298	65 966	67 655	69 358	71 084	72 800	74 528	76 266			
NET D	39 289.74	40 111.69	40 911.51	41 687.0	42 472.50	43 244.07	44 020.98	44 792.89	45 570.57	46 339.97			
NET S	36 382.94	37 023.29	37 743.81	38 442.63	39 150.38	39 846.32	40 547.27	41 243.70	41 945.34	42 638.27			
First Officer													
P-4 GROSS	47 315	48 833	50 433	52 033	53 665	55 210	56 815	58 416	60 096	61 829	63 518	65 191	
NET D	32 609.08	33 409.31	34 214.67	35 014.45	35 830.41	36 601.51	37 369.44	38 137.50	38 944.13	39 761.48	40 549.06	41 309.32	
NET S	30 274.93	31 001.84	31 727.01	32 446.81	33 181.17	33 876.73	34 562.66	35 250.72	35 973.32	36 707.55	37 417.22	38 101.37	
Second Officer													
P-3 GROSS	37 613	38 986	40 329	41 639	42 983	44 431	45 874	47 295	48 584	49 910	51 278	52 623	53 997
NET D	27 293.59	28 066.89	28 822.48	29 555.58	30 308.70	31 076.59	31 843.32	32 594.45	33 278.80	33 952.76	34 636.94	35 309.72	35 996.52
NET S	25 473.71	26 173.96	26 856.69	27 539.10	28 199.60	28 893.59	29 586.55	30 265.39	30 883.90	31 491.28	32 107.05	32 712.55	33 330.67
Associate Officer													
P-2 GROSS	29 815	30 878	31 930	32 987	34 105	35 215	36 336	37 439	38 575	39 721	40 868		
NET D	22 675.63	23 323.65	23 969.62	24 609.84	25 259.16	25 902.88	26 552.83	27 192.90	27 839.77	28 487.63	29 126.27		
NET S	21 261.03	21 853.80	22 441.05	23 030.54	23 621.68	24 207.61	24 799.37	25 382.05	25 968.74	26 553.95	27 129.38		
Assistant Officer													
P-1 GROSS	22 215	23 297	24 220	25 194	26 184	27 173	28 191	29 183	30 156	31 098			
NET D	17 935.88	18 557.10	19 186.72	19 800.49	20 423.97	21 047.12	21 686.23	22 289.18	22 883.22	23 457.56			
NET S	16 900.22	17 474.55	18 035.71	18 620.77	19 194.77	19 768.66	20 356.32	20 907.70	21 451.10	21 976.48			

D = Rate applicable to staff members with a dependent spouse or child.

S = Rate applicable to staff members with no dependent spouse or child.

PERSONNEL COSTS

General WALTERS. It is an organization in which an enormous percentage of the budget goes to personnel costs. I believe that in the U.S. Government, the last time that I had access to this figure, the personnel costs were somewhere around 56 or 58 percent. In the United Nations, I think that it is something on the order of 70 percent.

We have been disturbed by this, and we have undertaken a very serious campaign to get something done about this. Two things have been done. A resolution was adopted to appoint a committee of distinguished persons from 18 different countries to go over, with a fine tooth comb, the budget of the United Nations and see what could be done to effect economies that would not damage the functioning of the organization, and reflect the serious concern of the United States over the growth of the budget.

That committee has been meeting. It was a Japanese proposal originally, we strongly supported it, and the American representative on it is Jose Sorzano, who was Mrs. Kirkpatrick's deputy, and is, therefore, very familiar with the U.N. practices. He was there for several years.

That group is to bring in a report recommending changes in the budgetary practices of the United Nations for the 41st General Assembly, which begins in September. In the meantime, the Secretary General of the United Nations understood the seriousness with which we viewed this matter, and he himself implemented a package involving some $30 million in economies in the budget of the United Nations, such as wage freezes, promotion freezes, reduction of conferences, and things like that.

ADDIS ABABA CONFERENCE HALL

We have also worked very hard to defeat expensive projects such as a conference hall in Addis Ababa, costing $73 million in a country where 1,000 people are dying a day of starvation. I think that we have postponed that one.

REDUCTIONS IN MEETINGS AND DOCUMENTATION

The Secretary-General advanced another proposal to save another $30 million, primarily from reductions in meetings and documentation.

This proposal took a long time. We had a tough fight on it last week to get it through. Many of the smaller nations wanted to pick apart that package and increase this and decrease that. We struggled very hard to make sure that they didn't pick it apart. They did not, and they finally accepted it late last week.

That will be a total of $60 million, leaving a shortfall of about $20 million, or maybe $16 million that has to be found. Needless to say, the Soviet Union has not lost the opportunity for a grandstand gesture to offer to make a voluntary pledge of $10 million. The only trouble with the Soviet Union is that it has by far the greatest arrears of anybody. There has been an attempt to make the current crisis appear to be the result of American withholding. The United States, I don't know what the final figure that we will withhold, maybe $30, $40, or $50 million,

but the Soviet Union is in arrears by $313 million on its payments. But, they, of course, always take it on a very moral principle that we are opposed to peacekeeping activities. Nevertheless, they do not lose any opportunity to try and blame us for the financial crisis of the United Nations, when in fact the Soviet Union, as I said, has the largest arrears of any country. South Africa is $25 million in arrears. Poland is $14 million in arrears. We have fought those circumstances.

We now have a crisis with an apparent shortfall of $16 to $20 million. However, that is a false figure in the sense that the Secretary General has asked people to advance payments due for next year now. In other words, the moneys that are being used to remedy this current shortfall will not be incoming until 1987. However, we are hopeful that this group of eminent people, to which 18 nations have appointed very prominent citizens, will come in with a series of recommendations that will put the United Nations on a business footing, instead of on the somewhat haphazard situation we have had in the past.

I think the acceptance by the General Assembly of the Secretary General's proposals was a good step in the right direction, but there are many more steps to be taken, and we hope to strongly support the recommendations of that committee of 18 people whenever they are made.

Senator KASTEN. Would the Senator yield to me for just a brief followup here?

Senator INOUYE. I will be glad to yield to the chairman.

BUDGETARY MATTERS IN UNITED NATIONS

Senator KASTEN. As you know, there is a very strong majority in Congress that feels as you have just said, that somehow things have just gotten out of line, especially with regard to budgetary matters. One of the suggestions made is that the only way to solve the problem is to change the system, as you are suggesting, and the proper change of the system would be weighted voting along the lines of the World Bank, either on all matters that come before the General Assembly, or possibly on budgetary matters, so that somehow we could take into effect the fact that you can get to a majority vote and not get to 1 percent of contributions to the General Assembly right now in the United Nations.

As you know, the Kassebaum amendment requires action toward this goal. We would be interested to know what is the process going toward some kind of weighted voting, either overall or for budgetary matters, and do you believe that it is time now to put this kind of a policy into effect?

General WALTERS. As you know, Mr. Chairman, we have withheld the funds required under the Kassebaum amendment. That is one of the accusations that is made against us, that we are not living up to our obligations. That amendment is the law of the land, and we are required to enforce it, so we are withholding the moneys required to be withheld under the Kassebaum amendment.

With all frankness, I must tell you that to get weighted voting, you would have to have a vote in the General Assembly, and I would find it very difficult to believe that we could get that. Too many countries are paying less than 1 percent of the budget to ever give up the advantages that they enjoy.

How you go beyond that, I believe, is that if we can get a reasonable budget of which we pay a reasonable share, and if it is clear that the fat has been cut off, I think that Senator Kassebaum might be willing to reconsider the application of this, provided that we can show her that what is desired by weighted voting has been achieved by other means, that is, responsibility and restraint.

Senator KASTEN. I thank the Senator for yielding.

COMPENSATION OF UNDP AND UNICEF CHIEF EXECUTIVES

Senator INOUYE. Since we are focusing on UNDP and UNICEF, would you tell us what the chief executive for these agencies receives as compensation?

General WALTERS. I do not know. I will get that figure for you. I think that it is probably considerably more than I receive as the U.S. Ambassador to the United Nations. I am told that it is approximately $105,000 net of tax, and that figure is for the UNDP Administrator. I would presume that the UNICEF is probably on the same order.

Senator INOUYE. Plus expenses for housing, automobiles, and travel.

General WALTERS. Not for housing or automobiles, but for travel and representation.

[The information follows:]

PROFESSIONAL EMPLOYEES COMPENSATION

Compensation for professional employees equals the sum of the net salary plus the post-adjustment allowance. The UNDP Administrator receives $116,122 in salary and allowances per year ($78,430 net salary, $27,692 post adjustment, and $10,000 representation allowance). The UNICEF Executive Director receives $91,411 in salary and allowances per year ($64,535 net salary, $22,876 post adjustment, and $4,000 representation allowance).

FUNDING FOR U.N. CAPITAL DEVELOPMENT FUND

Senator INOUYE. In your statement, you have said that the executive branch has distributed the reduction in international organizations and programs' account, "to maintain funding levels for those programs directly serving specific U.S. interests, while still maintaining an appropriate U.S. leadership role in the other important programs."

Keeping that in mind, how does increased funding for the U.N. capital development funds serve specific U.S. interests?

General WALTERS. I would say that it probably serves in the sense that it adds thrust to the idea of privatization and the development of private enterprise. That is part of the philosophy of our Government, to try and do that insofar as we can. That is the best answer I can give you right now. I can look into the matter further, if you wish.

WORLD FOOD PROGRAM CONTRIBUTIONS

Senator INOUYE. The other item that intrigues me, how does zeroing our contribution to the World Food Program maintain an appropriate U.S. leadership role?

I ask this because I feel certain that the food program is involved in feeding Afghan refugees. Is that not so?

General WALTERS. I believe that that is done through AID, Senator, in some considerable part. I believe that there is a special fund for that, but it is not necessarily done through the U.N. organizations. As you know, the Soviets are able to stop a great many things in the United Nations, and if you propose a program through an area where they can obstruct it, it makes it very difficult to carry it out.

I would be quite certain that the Soviets would be opposed to any sort of assistance to Afghan refugees. We do transfer AID funds for the World Food Organization and for the World Health Organization, which plays a considerable part in providing food to needy people.

Senator INOUYE. Mr. Chairman, I have several more questions which I would like to submit to the Ambassador for his study and response, if I may.

Senator KASTEN. Without objection, those questions will be submitted.

Senator INOUYE. My assistant just handed me this report for fiscal year 1986, and I wasn't aware of this. The Administrator of UNDP has a gross compensation of $159,115. If you add to that representational allowance, post adjustment, dependency allowance, and education allowance, the grand total for the compensation is $207,207. I think that it is much more than you receive, sir.

General WALTERS. It is about three times.

I will be glad to look into that, and have further information for you. But it is these swollen salaries that are one of the things.

[The information follows:]

SALARY OF UNDP ADMINISTRATOR

The Administrator of UNDP receives a gross salary of $159,114. His net salary, which is $116,122, includes representation allowance and post adjustment/dependency allowance. The UNDP Administrator does not receive any education allowance.

Senator INOUYE. This is determined by the United Nations?

General WALTERS. It is determined by the United Nations, and we are hopeful that this group, who is examining this, will review in detail that kind of figure, and bring it down to a more realistic one.

One of the reasons for the gross difference in salaries is the fact that the compensation figure of $105,000 for the UNDP Administrator is free of taxes, and he is probably in a pretty high bracket, which moves that up considerably. As far as the representation allowance is concerned, I do not have the figure on what he gets, but I will certainly try to get it for you and submit it to you.

[The information follows:]

REPRESENTATION ALLOWANCE

The amount of representation allowance received by the UNDP Administrator is $10,000.

Senator INOUYE. This is a good place for retired Senators. [Laughter.] Thank you very much, General.

WEIGHTED VOTING

Senator KASTEN. I might just say that it is worth thinking about the Kassebaum amendment and the idea of working toward some kind of a system of weighted voting. If the General Assembly is faced with the question of weighted voting or not weighted voting, I would assume that the General Assembly would choose not to have weighted voting. If the General Assembly is faced with the question of a lessening or an elimination of support from the United States of America, and weighted voting, or continued participation by the United States of America and something close to weighted voting, we might be able to start to involve ourselves in some kind of a debate. At least we could try to push them toward weighted voting on key budgetary matters, or toward some other kind of a solution that would be close to the result that we believe we could achieve if those people who are paying the bills were also the people who were spending the money.

You have a situation today in which the people who are spending the money are not the people who are providing it. That kind of a situation is wonderful for that group of people who, if you add the 67 countries, are still not at 1 percent of the total contribution. It is a nice job, if you can have it.

I think a number of Congressmen and Senators want to change that system.

General WALTERS. I think they understand that we are serious, Mr. Chairman. We had up there as the congressional representatives last year, Representative Dan Mica and Representative Gerry Solomon. I think that one of the great advantages of having the congressional delegates—I do not know who will come from the Senate this year—is to make these people understand the depth of the feelings within the Congress on these matters, and that this is not the capriciousness of the administration.

I think they understand that there has got to be a change in the processes of the past, if they are to continue to receive the kind of funds and the basic order of magnitude. I have been in myself on four or five occasions to signify various withholdings and lessening of the U.S. contribution to 25 percent, which we had agreed. As you know, at the outset, we paid almost 50 percent, and then we negotiated it down to 33 percent, and then down to 25 percent. With the withholding, it will be lowered considerably below that figure.

Some people are advancing various proposals, such as everybody should pay 15 percent, or only the major powers, and so on. I think that when they face the consequences, and they receive the recommendations of this group of 18, they will understand that there has to be

some solution to this, or there will be a radical change in the U.S. contribution.

ZIMBABWE ACTIONS IN UNITED NATIONS

Senator KASTEN. General, recently, during the debate on the so-called "Second Decade to Combat Racism," a country which has received significant amounts of foreign assistance over the last several years stated the following:

"The racist Pretoria regime and the present racist U.S. administration have finally come out in their true colors. They are birds of the same feather. The United States of America has joined in this racially motivated campaign of destabilization by supplying STINGER missiles to UNITA." Further, he repeatedly referred to the "racist Reagan administration." The country of the representative who said that was Zimbabwe, a country which has received more than a quarter of a billion dollars in U.S. assistance over the past several years.

How do you respond to statements like that from countries in the United Nations, and how do you think we should respond under circumstances which indicate that the total resources are going to be very limited for foreign aid overall?

General WALTERS. First of all, Mr. Chairman, I can tell you that he didn't make that statement in my presence, or there would have been a response like I gave to Cuba when he said that the Reagan administration was the answer to Hitler. I reminded him that several hundred thousand Americans had died fighting Hitler, and that he knew nothing about Hitlerism. I was unaware of any contribution made by him or his country to the struggle against Hitler. Furthermore, 10 percent of the population of his country had fled to my country to escape the terror and oppression of the regime which he represented.

If the Zimbabwean had made that statement in my presence, he would have gotten something of the same kind. The United States is the fifth most populous black power in the world. Only Nigeria, Brazil, Ethiopia, and Zaire have more black people than we do, and to call us racists is an outrage.

I think that we should respond appropriately to that. I might say that I met him in London Airport the other day, and he said to me, "I am carrying a report to my Foreign Minister that you described us as the worst country in Africa." I hadn't, but I hadn't heard that statement at that time. Had I, I might have been guilty of the crime that he accused me of. It is an outrageous and unacceptable statement.

Senator INOUYE. Would the chairman yield?

Senator KASTEN. I would be pleased to yield to the Senator.

RESPONSE TO ANTI-U.S. STATEMENTS

Senator INOUYE. Mr. Ambassador, you say that we should respond appropriately, I believe those are the words you used. How should we respond?

General WALTERS. I think that we should take some sort of punitive action for a statement like that. I think we should examine the tradeoffs

of what is the most effective way to deal with that, that will hurt the most, and that will make them understand that this kind of intemperate language, when used against the United States, is not acceptable.

I do believe that Ambassador Byrne, Patricia Byrne, who works with me did make a rather sharp reply to that, and I will be happy to send a copy of her reply to you.

[The information follows:]

TEXT OF AMBASSADOR BYRNE'S REPLY

The text of Ambassador Byrne's reply is as follows:

Mr. President,

Normally, we would not respond to the comments of the delegate of Zimbabwe but yesterday he went too far when he equated the governments of South Africa and of the United States. We are saddened that a country as important as Zimbabwe, and one to which we provide a great deal of economic and technical assistance, is represented here by a delegate who seems to have a warped view of the United States. We shall be in touch with his government about this matter.

My country has a long history of opposition to apartheid and racism; our arms embargo against South Africa pre-dates that of the United Nations by several years. The U.S. record in Africa is a good one; we are the single largest donor of aid to Africa—real aid, such as food, technical assistance, and training. At home, our government and people have waged a long struggle to eliminate the ancient evil of racism from our society. The struggle is not over; we are committed to continuing it.

In passing, Mr. President, I wish to point out that my country's trade with South Africa is an insignificant percentage of our total trade. Zimbabwe, however, depends upon South Africa for up to 80 percent of its total trade. Some 17,000 Zimbabweans work in South Africa and remit some 20 million rands annually; Zimbabwe has received some 1 billion rands in investments from South Africa. The Zimbabwe tourist trade depends upon South Africa for nearly one-quarter of all its visitors. I do not say this to criticize or embarrass Zimbabwe. I merely want it understood that today's world is much more complex and interdependent than the simple certainties uttered yesterday by the Zimbabwe delegate would have us believe.

We must all work to end apartheid but in a way that does not add to the suffering of people in South Africa and in neighboring countries.

Thank you, Mr. President.

Senator INOUYE. Would an effective response mean cutting out aid?

General WALTERS. I think that there have been considerable cuts in aid to Zimbabwe. I am not quite sure whether the program is still ongoing there, but I think that there have been considerable cuts. I don't know about humanitarian agencies, but I certainly think, as I said at the outset of this, and I can't go into the details in each case, that there should be a correspondence between voting patterns and statements regarding us, and our attitude toward those countries and the assistance that we render to them.

THAILAND

Senator KASTEN. General, another of the more disturbing or disappointing things to have happened at the United Nations was Thailand's provision of the ninth vote in order to bring before the Security Council a resolution condemning the United States for our defensive action against Libya.

Up until now, generally speaking, Thailand has been a fairly good friend of the United States. Once more we have provided that country,

since 1946, in excess of $3 billion in foreign assistance, most of it since the beginning of the Foreign Assistance Act in 1962.

How do you explain that action in this matter, and what should be our response to Thailand?

General WALTERS. I can only speculate as to the causes of that. Thailand, as you know, feels extremely threatened by Vietnam. It feels extremely threatened by the occupation of Cambodia. I would suggest that the Thai delegate was probably—I am only hypothesizing and this is personal—supporting that in order to obtain Arab votes against the Vietnamese occupation of Cambodia. They may have seen some other interests which escape me, but I can assure you that I have never worked harder to change a vote than I worked to change that one.

Senator KASTEN. This is the problem. The Arab vote in opposition to the situation in Vietnam and Cambodia should be there in opposition to that policy, to that occupation, whether or not Thailand votes on the Libya question. There ought not to be any relationship. That can't be the kind of an answer that you or the Congress can take as justification for that outrageous action.

General WALTERS. I can find no justification for it. I am going to Thailand in the not too distant future, and I intend to tell them the impact that that vote had in the United States.

Senator KASTEN. I mean, $3 billion is a huge amount of money, particularly for that country.

MOZAMBIQUE

Another country that the subcommittee has highlighted in the last couple of years in association with this report is Mozambique. Two years ago, we were approached and asked to provide some bilateral assistance to that country, despite the fact that it is basically a client state of the Soviet Union. During discussions with the State Department, one of the things that the subcommittee pointed to was the very low level of support which Mozambique gives the United States of America.

The first report had 8.6 percent support of the United States. Last year's report had 3.9 percent, the lowest percentage of any country in the world. This is another of your examples of so many countries falling even behind the Soviet Union. This year, the percentage coincident with the United States is only 5.9 percent. Putting them in at 5.9, it means that you only have three countries in the world, Algeria, Angola, and Communist Yemen, that are below Mozambique in terms of support for the United States of America. Those are the worst voting records of all the countries in the world.

Of the 10 important votes, Mozambique voted against us 4 times, and was absent 6 times, not voting with us, therefore, one single time. Does this sound like a country which you believe we ought to be providing American taxpayer funds to?

General WALTERS. This year, for the first time, they did not vote against us on Afghanistan, they abstained, which is, if you will, a copout. It is my understanding, however, that nearly all of the American aid going into Mozambique is emergency food aid, and I

presume that we are providing it for the same reason that we are providing food aid to Ethiopia, which is a country with a voting record not unlike Mozambique's.

Senator KASTEN. Mozambique is below that. I wanted to be sure that I understood your answer. You said that they abstained. Isn't there a difference between abstaining and being absent?

General WALTERS. It is a copout either way.

Senator KASTEN. But isn't it a different kind of a copout by being absent?

General WALTERS. You are right, they were absent. They did not abstain, they were absent.

Senator KASTEN. But that is an important difference, isn't it? You can't give them credit for being absent.

General WALTERS. I am not trying to give them credit.

Senator KASTEN. You may be able somehow to justify them for voting in absention.

General WALTERS. No, I can't justify that on any grounds, and I personally can't see it for aid, other than emergency food aid to starving people. That is the only justification I can find. They really are at the bottom of the list, or very close to it. In fact, I talked to the President myself at great length. I happen to speak Portuguese, and I told him in an unmitigated way what the reaction was to his country's voting pattern.

OVERSTAFFING AT UNITED NATIONS

Senator KASTEN. The administration, General, has taken the right action, I believe, in ordering a large element of the Soviet Mission in New York out of the country as in excess of their needs.

What about other countries, such as Cuba, the PRC, maybe Nicaragua, aren't these countries way overstaffed, if you look at their need in New York? Shouldn't we perhaps suggest that other countries, in addition to the Soviet Union, are carrying on activities in New York which have no relationship to the day-to-day functions that they would have legitimately in the United Nations?

General WALTERS. As you know, Senator, we have asked the Soviets to reduce their mission staff from 275 to 170, which is still half again as big as the U.S. Mission. The PRC Mission has 116 people. We have also required the Ukrainians and the Byelorussians to reduce the size of their missions.

I think that it is good as a whole to reduce the excessive sizes of these missions. They have attempted to come back and say that this is unjustified. I believe that it is the practice throughout the world to authorize the host country to place a limit on these people.

I think that it is something that should be looked into according to the degree of activity. It would be a question that should be discussed with the FBI. Some of them are charged by the Soviets with carrying out certain kinds of espionage, and others are allowed to remain more quiescent.

I would like to perhaps have an opportunity to look into that, and see what the degree of arrests or the degree of expulsion was for activities incompatible with their diplomatic status.

ZIMBABWE

Senator KASTEN. I want to go back to the Zimbabwe question for just a minute. The administration has requested $21,250,000 for fiscal year 1987 for Zimbabwe.

U.N. PARTICIPATION ACT

There have been a number of newspaper articles about the amount of funds expended for housing in New York for USUN personnel. This relates to Senator Inouye's question.

My understanding is that, including the amount which is paid for housing for you, the total for housing is about $2 million for USUN personnel. What is your response to that criticism which has been leveled at those overall expenditures, and frankly it may be more convenient for you to provide that information to us in writing. It may not be at your fingertips and you may want to provide some of that information to us for the record.

General WALTERS. I would be glad to, Mr. Chairman. I might perhaps say a word, if I might, in a general way about that, because I presumed that that question might arise.

The U.N. Participation Act, amended in 1983, authorizes the lease or rental of quarters for representatives and staff. This legislation is the result of a long-term perception by the Congress that a supplemental housing program is necessary to ensure the most efficient representation of the United States to the 158 countries.

We are unlike other embassies in that we are in touch with 158 governments, and not just one, which is the case of most others. This program costs $1.8 million to house 45 employees whose assignment to New York is transient in nature, and the mission's monthly rent is $3,300 which seemed excessively high to me until I went to New York, until I saw the impact, for instance, on myself of the cost of living in New York compared to what it was in Arlington, where I lived before.

These employees are on call 24 hours a day, 7 days a week, because of the nature of the United Nations. The Ambassador, officers, and staff have to be able to respond immediately to developments in the Security Council. Last Friday, for instance, the session went on until 10:30 at night.

OVERSEAS GOVERNMENT HOUSING

In this aspect of work, the Foreign Service personnel who stay in New York on the average of 2 to 3 years are like military personnel who are also housed in government facilities in the New York metropolitan area. I am sure, Mr. Chairman, you have traveled all over the world, and you have seen the kind of housing that is provided for senior embassy personnel in various countries.

The program is tightly administered in recognition of the need to respond quickly to U.S. interests as they develop. A Mission Board,

chaired by an ambassador, develops an overseas housing policy. I have requested that Housing Board review all of the leases and all of the government housing we are now providing, and I expect to have a report quite soon on that.

There are five ambassadors assigned to the various functions of the United Nations. Three of them reside in Government housing, and two of them reside at no cost to the Government in quarters of their own. The Permanent Representative, under a separate authorization, maintained quarters in the Waldorf Astoria for the past 25 years. The present rent for these quarters is budgeted at $235,000 for fiscal year 1986. The Deputy Permanent Representative is housed for $10,961 a month, and the Representative to the Security Council is housed at a cost of $6,700 a month.

I was an Army officer for 36 years, and the size of these rents is an absolutely stunning thing to me. For instance, in the house where the Deputy Permanent Representative lives, there were three other Deputy Representatives of other countries living in the same building, probably paying something like the same rent.

Many countries purchased quarters many years ago, and I am still baffled why the United States never did. When I think of the rent that has been paid to the Waldorf Astoria over the last 35 years, we could have bought a fairly handsome set of quarters there.

When I went there, we were instructed for the first time to establish a residence for the Deputy Chief of Mission. I think if you have traveled around the world, and seen the kind of housing the Deputy Chief of Mission has in places like Paris or London, where we own the houses, if you broke that down on a rental basis, it would come to a very considerable sum of money.

I asked one of the NATO Europeans what his secretary paid, and she pays $2,100 a month for a studio...

The Ambassador is required to live in close proximity to the United Nations since they are on an immediate call. They must be able to represent the United States to the other member states in their homes. They must be housed in secure neighborhoods and buildings because of the confrontational profile which they often maintain in the fora. We are, after all, the people who cast the veto against the terrorist countries, and are, in consequence, not highly regarded by them.

Great Britain, France, Italy, Japan, Germany, and the Netherlands are but a few examples of countries which house their Deputy Permanent Representatives in larger and more prestigious addresses than the U.S. Representative. We are housing our ambassadors at the same level and quality as other country representatives to the United Nations.

The New York City real estate market is chaotic, with a 1-percent vacancy rate in apartments. Landlords demand and get exhorbitant rents. The Mission is trying to improve its situation by taking advantage of stabilized rents for apartments as they become available. The market is now softening because of interest rate decline, and we will continue to try and improve these costs.

I might say, this is an ongoing effort, and I have asked the Housing Board to look very closely at that. I will forward to this committee more details on this whole matter.

The staff of the United Nations is gathered from all over the United States. They pay city and State taxes, they commute on subways, and raise families in New York City. They are dedicated and hard working, and put in very long hours to implement U.S. Government policies in the intense atmosphere of the United Nations.

It seems to me that it is in the wisdom of the Congress to decide what to do, but to continue to pay the kind of rents that we are paying for the Permanent Representative and the Deputy Permanent Representative, that even in a period of budgetary restrictions, it might be wise to purchase residences where we would not be subject to that sort of thing.

I might add that the house where the Secretary General now lives was offered to the U.S. Government as a gift some 20 years ago, and we refused.

I would hope that the Congress, in its wisdom, would see the advantage of this embassy, which is a medium-sized embassy, low- to medium-sized embassy compared to some of the embassies that we have around the world—that is, Cairo, Mexico City, London, or Paris. It is not going to benefit me that much, because I am not going to be there that long, but we should certainly try and provide a permanent housing for some of our people there. I think that it would be in the interest of the Government, and in the long run it would be extremely economical.

I will submit to the committee further details on this question of the payment of Government housing for these people in New York.

[The information follows:]

MAY 30, 1986.

Hon. WARREN BRUCE RUDMAN,
U.S. Senate,
Washington, DC

DEAR SENATOR RUDMAN: This letter is in response to your suggestion during our recent phone conversation that I write you concerning the official housing program here at USUN. This program, which is authorized in the U.N. Participation Act, resulted from a clear perception in the Congress that a housing supplement is necessary to induce foreign affairs professionals to choose assignments in New York City.

Sought after officers and staff who would ordinarily be overseas or in Washington are very reluctant to take on the cost, family disruption and the intense working environment at the United Nations. The alternative is a mission staffed fully by permanent employees who have chose to live in New York and have set up the economic and family roots to support that decision. This alternative has a serious potential for stagnation and a narrowly focused staff which would limit our effectiveness in this important forum.

The Congress has made the correct decision in implementing this program under its present guidelines. It is a program which gives me considerable latitude in bringing our country's best experts here for tours of relatively short duration. I need and I ask for your help in resisting shortsighted attempts to alter it. You have my personal pledge that the administration and execution of this program will be as strict and cost effecitve as good management can make it.

With every good wish.

VERNON A. WALTERS.

GAO STUDY OF U.N. DEPARTMENT OF PUBLIC INFORMATION

Senator KASTEN. General, I have one final question. Senator Specter, who is a member of this subcommittee, requested an analysis of media pieces produced by the U.N. Department of Public Information in order to determine whether they supported or opposed U.S. policies or U.S. interests.

The results of the GAO study are interesting. According to their analysis, half of the items were neutral, whereas the other half opposed U.S. interests. At least in that analysis, only one of the entire group of media pieces supported U.S. interests.

How much of the U.S. funding goes to this particular office? How many people are employed by that office? Are you making any effort to change this bias by the U.N. Department of Public Information?

General WALTERS. I am. I have talked to the Secretary General about this. A lot of this comes under the Under Secretary General, who is a Soviet citizen. There was a proposal to increase from 7 to 13 the number of people, but we have, I believe, successfully opposed that.

I fully share the opinion of the total bias of this kind of production, and I intend to do everything I can to make sure that this section is ripe for a severe pruning and an understanding that they cannot go on under the guise of international representatives putting out anti-U.S. propaganda.

PUBLIC INFORMATION OFFICE FUNDING

Senator KASTEN. Do you know how many people are employed by that office, and how much U.S. funding goes into this particular office?

What I am suggesting is that we may be able to help you, sir.

General WALTERS. The Department of Public Information in the United Nations, I am told, is huge. It has about 800 people, which absolutely boggles my mind, and the budget is $70 or $80 million. It is bad, and we have to change it. I intend to do it. I have already undertaken a series of demarches in this respect, and I intend to continue them, in the light of this, with even greater vigor.

Senator KASTEN. Eight hundred people at $80 million?

General WALTERS. Yes; the figure is so large that I am staggered.

Senator KASTEN. It is absolutely extraordinary.

General WALTERS. As I said, it is ripe for a severe pruning.

Senator KASTEN. We have two reasons now. One reason was that of all the media pieces coming out, it is evenly divided between neutral and anti-U.S. Then it takes 800 people and $80 million in order to do that job.

General WALTERS. I am hoping the committee of 18 will do something about this.

[The information follows:]

DPI BUDGET

Subsequent information revealed that the total DPI budget for the 1986–87 biennium is $76 million, of which the U.S. share is 25 percent, or $19 million. Based on the U.N.'s latest figures for presently occupied positions at U.N. headquarters, for those employees who held an appointment of 1 year or more as of June 30, 1985, the size of the DPI staff, both professional and general service, is 402. DPI has 113 U.S. citizens employed there.

Senator KASTEN. We, in addition to following the report carefully, and analyzing the GAO report, will look forward to working with you as we work with the overall budget, maybe with some particular attention and scrutiny on the United Nations' Department of Public Information.

General WALTERS. I might add, Mr. Chairman, that we have, on a number of occasions, protested to the Secretary General on a number of these reports and papers that have come forth. Ambassador Reed, right now, is charged with a project of redressing this imbalanced situation, and I believe more than addressing the situation. I think that 800 is a totally mythical figure, which has no relation to the information requirements of the United Nations.

My French colleague, the other day, said that he picked up an 18-page study of the French internal political situation, but he said, "That is not the business of the United Nations, to study the internal political situation in France." So I think that we will have support on this issue.

Senator KASTEN. I have not reviewed the GAO report in detail, but if what we have, in a sense, is that the U.S. taxpayers are paying for a Soviet propaganda machine, which costs $80 million a year and takes 800 people to crank out the documents, I am not so sure that it is the kind of expenditures that the taxpayers of the United States would be interested in supporting if they, in fact, knew they were supporting it.

General WALTERS. I think that it should be severely pruned, if it is maintained at all. I think that it is outrageous.

Senator KASTEN. Do you know, of the 800 employees, what the makeup of these employees is by country, specifically how many of those 800 employees would be Soviets or Eastern Bloc citizens?

General WALTERS. I will supply that information for the record.

[The information follows:]

DPI STAFFING PATTERN BY NATIONALITY

United States	113
Union of Soviet Socialist Republics	10
Ukranian SSR	3
Byelorussian SSR	1
Cuba	2
German Democratic Republic	1
Bulgaria	1
Hungary	1
Argentina	4
Australia	8
Belgium	2
Brazil	6

Burma	2
Canada	7
China	6
Egypt	4
Ethiopia	2
France	22
Germany FR	5
Guyana	2
Haiti	5
India	8
Ireland	5
Italy	6
Jamaica	3
Japan	14
Jordan	2
Lebanon	2
Lesotho	2
Malaysia	3
Mexico	3
Netherlands	3
New Zealand	3
Pakistan	3
Peru	2
Philippines	38
Sierre Leone	2
South Africa	9
Spain	3
Sri Lanka	3
Syrian Arab Republic	3
Trinidad and Tobago	5
United Kingdom	22
United Republic Tanzania	2

DPI has one staff member from the following countries: Austria, Barbados, Belize, Benin, Bolivia, Cape Verde, Central African Republic, Chile, Colombia, Congo, Costa Rica, Denmark, Gambia, Greece, Honduras, Indonesia, Iran Islam Republic, Israel, Kenya, Liberia, Madagascar, Malawi, Morocco, Namibia, Nepal, Nicaragua, Portugal, Samoa, Senegal, Sudan, Sweden, Thailand, Tunisia, Turkey, Uganda, Venezuela, Democrat Yemen, and Yugoslavia.

General WALTERS. The information area has always been an area of intense interest to the Soviets. When they have a position there, they tend to regard it as hereditary. Once it is occupied by a Soviet, it should always be occupied by a Soviet. We intend to oppose that and to change it.

Certainly, I knew of the nature of the activities, but I didn't know the size and the cost. If I had, I would certainly have done more about it than I have. As I said, Ambassador Reed is working on a specific project to redress the situation, and I look forward to reporting further to you on the results of this campaign.

Senator KASTEN. I just want to reiterate, and possibly Senator Specter might want to ask a question or two in this regard. We are anxious to work with you, and we are able and willing to be a little bit more specific, possibly in the report language, or in the budget, in order to facilitate your efforts here, in order to limit or change the apparent bias, or the obvious bias, of the information in the media pieces that are being produced by the U.N. Department of Public Information.

General WALTERS. Your interest in this question will greatly strengthen my hand in dealing with both the numbers and the quality.

Senator KASTEN. Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman.

Ambassador Walters, first let me commend you and thank you for the outstanding job that you are doing. I regret that I was not here to hear your testimony or the inquiries about the information being disseminated by the U.N. Department of Public Information. If I cover some ground, which you have already been over, I regret that.

Do you concur with the general thought that the U.N. Department of Public Information is disseminating information which is unfairly adverse to U.S. interests?

General WALTERS. Yes, I do, Senator.

Senator SPECTER. Is it realistic to stop some of our funding for that agency specifically as some therapeutic effect on what it does?

General WALTERS. I certainly think that we should threaten to do that initially, to see whether we get results. We are trying to get results now. This section is totally out of hand.

We have withheld funds on other projects, which we found undesirable, and they must understand what we are prepared to do in this case. I think that we certainly should be; I think that we have no choice, considering the number of people who are involved in this and the tone of the product that is being put out. Certainly, this is an option that the U.S. Government should consider.

Senator SPECTER. When we have withheld funds from other agencies, what is the practical effect of that? Does that stop the agency from carrying out activities which it had theretofore undertaken, or did it simply reallocate funds, or does it really have an effect on controlling or regulating or deterring their conduct?

General WALTERS. My belief is, and I may be wrong on this, is that they tend to reallocate funds, and it does not have the kind of immediate effect. But rarely do we have something that we substantially prove as correct like this. I think that if we take this to the Secretary General, and we take this to the staff of the United Nations, they will understand that we have a pretty justified case.

Before you came in, Senator, I said that I have protested on a number of occasions, as did Ambassador Kirkpatrick, to the tone of these things. As I said, recently, we successfully opposed one of these areas being increased from 7 to 13 people.

I certainly think, in the light of the GAO report, we have sufficient grounds to go in with a very strong case. First of all, I am shocked at the size of this division, which seems to me to have grown beyond all possible requirements. Second, I think that the nature of the studies being put out is such that we have a justifiable claim to demand that these substantially change, especially at a time when the U.N. staff itself is looking for areas to reduce expenses. I can't think of any area in which reducing expenses would be more profitable for the Organization as a whole than this one.

CUTTING U.S. CONTRIBUTION TO UNITED NATIONS

Senator SPECTER. Why not simply cut the U.S. contribution; why wait?

General WALTERS. That is up to the Congress.

Senator SPECTER. What is your recommendation?

General WALTERS. I will tell you, and I will be honest with you, Senator. I have been involved with about eight or nine different withholdings, sequestrations, and so forth. I feel a little bit like a carpet merchant, because I go in and I cut these things off.

Senator SPECTER. That is all the Appropriations Committee does.

General WALTERS. That is right.

Senator SPECTER. We are all carpet merchants.

General WALTERS. I have no compulsion, if that is the desire of the Congress, if that is the law of the land, I will certainly go in and tell them. I would like to give them a little warning and see if we can't get some results first.

Senator SPECTER. The question that I have is, if we withhold the funds, does it really make a difference?

General WALTERS. I would hope that it would, but I can't guarantee to you that it will, or whether they will shift money around.

UNESCO

Senator SPECTER. Mr. Ambassador, do you know what happened at UNESCO? I was just conferring with Jim Bond for a moment here to refresh my recollection on what happened there. We have taken action to withhold funding, and then we withdrew. Has that had a significant effect on the kind of conduct that we wanted to influence?

General WALTERS. In UNESCO?

Senator SPECTER. Yes.

General WALTERS. I am afraid not. It is just as bad as it always was. It is an organization, supposedly to help the Third World, of which about 75 percent of the expenditures are conducted in the city of Paris, which I would not describe as being a Third World area.

Furthermore, they have come up with a new order of information, which I think constitutionally we could not accept because it would limit the control of the press. It would create a control over the press. So I have really seen no signs of any improvement in UNESCO's behavior. I regret to say that a number of countries have forked up money to supplement what we cut off.

Senator SPECTER. Did our action with respect to the ILO have any therapeutic effect?

General WALTERS. I think that in the ILO case, it did.

Senator SPECTER. How do you account for the difference in the two as a guide to how we should respond in the future?

General WALTERS. I would say, it is probably the way UNESCO is run. As you know, we sent over an accounting group to look at the accounts there. When they arrived there was a fire in the accounts. I am told that a number of people were observed trying to put out the fire by throwing files on the fire. [Laughter.]

Senator SPECTER. To smother the fire.

General WALTERS. They were trying to smother the fire with files.

Senator SPECTER. It is not an easy question, Mr. Ambassador. I think that all of us on this subcommittee and otherwise have a fair amount of constituent demand, ranging all the way from cutting down the U.S. contribution, saying that we should contribute no more than the Soviet Union does, to withdrawing from the United Nations. I, for one, think that we have to support and we have to be a part of the United Nations. However bad it is; it would be worse if we weren't there.

General WALTERS. I agree.

Senator SPECTER. You agree with that.

General WALTERS. I agree.

Senator SPECTER. It is necessary for the United Nations to function as a forum for important deliberations and expressions, but it is hard to orchestrate the use of our funds in support to get appropriate response to U.S. interests and to be fair.

General WALTERS. I would like, if I may, to have the indulgence of the committee to look into this matter within 10 days, and give you a somewhat more educated opinion than I have given you so far.

[The information follows:]

MAY 29, 1986.

DEAR SENATOR SPECTER: This is in response to your request at the May 16, 1986, Senate hearing that I provide you with my considered views on whether it would be useful to withhold U.S. funding from the United Nations earmarking it from the Department of Public Information [DPI].

The Department of State fully shares your concern, documented by the recent General Accounting Office [GAO] study, that materials produced and disseminated by the DPI contain a high incidence of anti-U.S. bias. The GAO study substantiated problems which have been repeatedly raised with the DPI.

Based on GAO findings, we have jointly instituted new procedures for improved review and remedial action. We look for significant improvements in the objectivity and quality of the DPI's product over the coming months.

It would greatly assist us in this effort to be able to refer to a formal expression of congressional concern. Therefore, you might consider an action which would (a) express congressional concern through a sense of the Congress resolution and (b) request the Department to report to the Congress within 1 year (about March 1) on whether there has been measurable improvement as a result of the review and remedial procedures we have instituted. On the basis of that report, the Congress could in concert with the Department make a decision about withholding. This action would take into account all factors, including the willingness of U.N. officials to make appropriate adjustments.

Sincerely,

VERNON A. WALTERS.

Senator SPECTER. That would be greatly appreciated.

Thank you very much, Mr. Ambassador.

General WALTERS. In my daily battles in the Security Council and in the General Assembly, I do not have as much time to look into all of these matters as I would like. I was once told by one of my predecessors that outside of the General Assembly—who is now a Member of the U.S. Senate by the way—it was the greatest paid vacation in the U.S. Government. I have to tell him that in 15 years heavy changes have taken place.

Senator SPECTER. Thank you very much, Mr. Ambassador.

Mr. Chairman, I have some questions for the record, that I would like to submit.

Senator KASTEN. Without objection, so ordered.

Senator D'Amato.

Senator D'AMATO. Mr. Chairman, thank you for giving me the opportunity to say hello to a good and old friend, General Walters, who is doing an outstanding job. It is good to see you, Mr. Ambassador. I am afraid that I am unable to be here for an extended period of time, because, as with most of my colleagues, there are two, three, and four different hearings scheduled. But I would like to wish you continued success in your strong advocacy for those principles that the United Nations should be standing and fighting for, and to tell you how proud we are of your tenure. I look forward to working with you and taking my lead from you, as you have demonstrated the kind of resolve and purposefulness that has even brought about some changes in a short period of time.

Mr. Chairman, I would like to submit my statement for the record, as if read in its entirety, as well as my prepared questions.

Senator KASTEN. Without objection, it is so ordered.

[The statement of Senator D'Amato follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Mr. Chairman, I want to thank the Honorable Vernon Walters, U.S. Permanent Representative to the United Nations, and Alan L. Keyes, Assistant Secretary of State, Bureau of International Organization Affairs for appearing before our committee today.

Over the last several years, the United Nations has been a lightning rod for criticism, rightly so, given the November 1975 General Assembly vote equating Zionism with racism, Eastern European nations using the United Nations as a safe home for espionage against the United States, and the rampant abuse of U.N. funds in agencies such as with UNESCO. If Americans have become disillusioned with the institution, how can we blame them?

They see an organization, located on our soil, which consistently criticizes the United States and our best ally in the Middle East, Israel. They see an institution which gets more money from the United States than from any other nation, but which votes against the United States seemingly every chance it gets.

The United States pays three times more than the next highest donor. The record of other nations voting with the United States is deplorable: The nations of Africa voted with the United States an average of 12.8 percent of the time; Asian nations vote with us an average of 15 percent; and even the nations of the Western Hemisphere vote with the United States only 23 percent of the time.

Growing dissatisfaction with the United Nations has been reflected in recent congressional attempts to limit funding for this organization. Americans want to know, rightly so, what is our advantage in staying in the United Nations.

Even so, the United Nations does serve a useful purpose. Whereas the actions of the U.N. General Assembly and Security Council are frequently discouraging, the activities of some of the specialized agencies can be beneficial. I am pleased to see, however, that in this year of tight fiscal restraints, the administration has not asked for an increase for the international organizations and programs account for fiscal year 1987. I am also pleased that these budget constraints have forced the administration to be more selective on which U.N. programs to fund. I notice that there are several U.N. program accounts that have had the U.S. contribution either reduced or eliminated.

I am very concerned, however, about our funding for the United Nations Relief and Works Agency for Palestine Refugees. Requested U.S. funding for this program, which is administered by the Agency for International Development, is $67 million; or about 30 percent of the $225 million program. Although parts of this program may be worthwhile, I particularly question the approximately $23 million spent on schools in Syria. That nation's support for international terrorism and its efforts to sabotage any Middle East peace efforts do not merit any U.S. support, even indirectly.

I am also very concerned about the use of the United Nations as a virtual safe house for espionage against the United States. A report issued last year by the Select Committee on Intelligence stated that the Soviet Union is "effectively using the U.N. Secretariat in the conduct of its foreign relations, and the West is paying for most of it. The Soviets have gained significant advantage over the West through . . . their detailed plans for using the United Nations to achieve . . . intelligence objectives." Even with the decision by the administration to reduce the size of the Soviet U.N. mission, abuse of the United Nations in this manner by the Soviets will continue.

The United Nations is neither wholly good or wholly bad. U.S. funding decisions, however, do not have to be an all or nothing proposal. We should continue our course of selective funding of U.N. programs that better reflect U.S. policy objectives.

I highly commend the work of Ambassador Walters. I believe that he and his predecessor, Dr. Kirkpatrick, have done much to redirect the work of the General Assembly into more realistic and meaningful work. A great example of this redirection was the General Assembly's unanimous decision last December, after many years of indecision, condemning all acts of terrorism as criminal.

Again, I thank our witnesses for appearing before us today, and I thank you, Mr. Chairman, for holding this hearing.

General WALTERS. Thank you, Senator.

I might just say that in my office, I have a number of flags that the United States has given me over my career. I have the American flag which they gave me when I became a general, which presumably will be draped over my coffin. They gave me a three-star flag when I became a three-star general. They gave me a Deputy Director of Central Intelligence Agency flag, which I have. They gave me an Ambassador-at-Large flag, and an Ambassador to the United Nations flag. But I went out and bought one of my own. It is an old American Revolutionary Flag, and it cost me $111, and it has a coiled snake with an inscription that says, "Don't tread on me."

There is also a small one on my desk, so that there will be no doubt with anybody whom I talk to as to what my position is. [Laughter.]

Senator KASTEN. It is like taking off the kick me sign.

General WALTERS. I don't believe in the kick me sign.

Senator KASTEN. Senator Johnston.

Senator JOHNSTON. General Walters, I also want to welcome you to the committee. Senator Kasten and I were delegates to the United Nations a few years ago. The world was at peace throughout our stay, for which we duly took credit. [Laughter.]

General WALTERS. Come up again, Senator, we need you.

CONTINUED ROLE OF UNITED STATES IN UNITED NATIONS

Senator JOHNSTON. I must say that it was a very interesting experience. It is a very ponderous organization, and I felt that it was sort of like an automobile whose steering wheel was not connected. We were up there madly turning the wheel, but nothing responded.

Nevertheless, I had the impression that you were right in your response a moment ago when you agreed that however bad the organization may be, we were better in it than out.

I wonder if you might expand upon that, tell me and tell the committee why it is important, what are its capabilities, from your standpoint, and what our continued role should be in it?

General WALTERS. First of all, I think, that if we were to pull out, it would be observed by many of our allies as a retreat into isolationism. It would probably move somewhere else, and go on, and still be regarded by a lot of people as some sort of conscience of mankind. We would be incapable of defending our position or clarifying the falsehoods that are said about us.

One of the busiest things I have to do is correct falsehoods said about the United States. As an old soldier, I am always reluctant to abandon the battlefield by default, particularly one that I consider important. I think that it is far more important for us to stay there and continue to fight, even though we have been fighting against very considerable odds.

To me one of the very disappointing things I find which so many of the Third World countries tend to forget is that the United States was the first anticolonial power. If they are free today, it is in large part the result of the continuous struggle by the United States to convince the colonial powers that the time had come to put an end to colonialism.

One of the irritating things to me is that I see very little credit given to us for that fact.

CAPABILITIES FOR CRISIS MANAGEMENT

Senator JOHNSTON. What are its capabilities for crisis management?

General WALTERS. Quite frankly, Senator, I believe the founders hoped that it would become some sort of a super-national government, and that hasn't happened, probably because of the overwhelming exercise of the veto by the Soviets. They make a great deal of the vetoes that we cast now, but overall they have cast far more vetoes than we have.

It has not developed into that kind of an organization, and nations still are very jealous of their national sovereignty, which is one of the reasons why it makes it very difficult.

I would say that it is quite effective in dealing with conflicts between small nations, but it has shown that it is not effective in dealing with the conflicts between large nations. I think that we have to work to try and make it do that.

It takes such a one-sided position, when you look at the so-called nonaligned group. The other day in connection with the Libyan crisis, I said the alignment of the nonaligned against the United States is nothing new, but rarely has it been as brazen as it is in this chamber today.

I just think that we have to continue to struggle. It is not rewarding, and maybe there won't be any progress in my lifetime, but certainly, for whatever time I have there, I intend to continue to struggle for a

better recognition of the U.S. position, because I think that if they understand our position better, the world will be a better and safer place.

I don't believe in going off and leaving them to have this organization, which would be in large part dominated almost totally by the Soviet Union and its allies, putting out falsehoods about our country and misleading the people of the world.

REDUCED U.S. FUNDING TO UNITED NATIONS

Senator JOHNSTON. At what point do we begin to jeopardize our position by cutting back funding?

General WALTERS. I don't know, Senator. I can't tell you at what point that would be. That is a judgmental question. A lot of the countries tell us that we are in violation of our charter obligations by doing this. I am an American official, who is sworn to uphold the Constitution of the United States, and anything that is allowed under it, I will enforce.

It would be very hard for me to give you an answer sitting here as to what percentage would do this, whether it would be 25, 10, or 15, I can't tell. Some people who resent the U.S. advise that the permanent members of the Security Council ought to pay 10 percent. Where they would get the rest of the 50 percent, I don't know, because 70 percent pay less than 1 percent of the expenses. Where they would get those funds, I would not dare to give you a statement that it is 17, 13, 15, or 10 percent.

Senator JOHNSTON. You are not here today to say that the contributions we made last year are sacrosanct. For this year, if we examine, for example, the present operation of the Department of Public Information, $80 million and 800 people, could we suggest cutting way back to that department without jeopardizing our position on the essential functions of the United Nations?

General WALTERS. I think we could, but it would be weighed, and in a way it may be construed as a withdrawal from the United Nations, rather than withdrawing support from this organization.

I will do everything in my power to make clear the U.S. position and the position that I have found in this committee today, to a number of people involved in the production of this information, and the quality of the information that is published by the United Nations.

Senator JOHNSTON. Thank you very much, Mr. Ambassador.

Senator KASTEN. General, thank you very much for your testimony here this morning. We look forward to working with you. I particularly want to commend you for your frankness, as Senator Inouye said earlier. It is clear that we share the same goals, it is a question of how we can best reach those goals. We are prepared on this subcommittee to use the budget and the appropriations process to effect the kind of changes that we are talking about within the United Nations, and also to affect the behavior of the countries in the United Nations through our bilateral foreign assistance programs.

We congratulate you on what you have been doing, and we look forward to working with you. Thank you very much for your testimony.

General WALTERS. Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator KASTEN. The committee has additional questions which we will submit for your response.

[The following questions were not asked at the hearing, but were submitted for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

ROTH-HYDE AMENDMENT

Senator Kasten: The so-called Roth-Hyde Amendment places restrictions on the travel of the Soviet Mission members in New York, and in order for them to travel to certain areas outside the restriction, they must get approval. Has this just become a paper exercise, with the U.S. always saying "yes" to requests to travel outside the restricted area, or in fact, are requests being denied in some instances?

Ambassador Walters: Travel restrictions on personnel of the Permanent Missions and Observer Offices of Afghanistan, Albania, Byelorussia, China, Cuba, Iran, Kampuchea, North Korea, Libya, Mongolia, PLO, Ukraine, USSR and Vietnam existed prior to the imposition of the Roth Amendment. However, the Roth Amendment has extended travel controls on members of the UN Secretariat by personnel of hostile nationalities. Since the imposition of these Roth Amendment travel controls on September 15, 1985 until c.o.b. June 13, 1986, the United States Mission has received 278 requests for travel by United Nations Secretariat personnel. In addition, another 193 travel requests have been received from the Permanent Missions and Observer Offices to the United Nations, for the period January 1, 1986 - June 13, 1986. Of these, there have been 25 denials. Each of these requests to travel has been reviewed individually by an inter-departmental group with consideration given to both applicant and destination. While no application from the United Nations Secretariat has so far been denied, implementation of the Roth Amendment has made readily available to the intelligence community much useful information from the perspective of United States national security interests.

ISRAEL

Senator Kasten: One of the favorite activities of the U.N. General Assembly is to bash Israel in various fashions. Do you see any change in this activity? Is it getting to be more or less, or about the same?

Ambassador Walters: While it is difficult to measure precisely anti-Israeli rhetoric in the U.N. General Assembly, I believe it has decreased slightly in recent years. Unfortunately, there are still many vehemently anti-Israeli statements made by delegates from Iran, radical Arab states and East Bloc countries. U.S., Israeli and other Western delegations often speak in rights of reply to these unacceptable statements. Actions critical of Israel also continue in the General Assembly, but again less than in previous years. Israel's credentials are regularly challenged in the General Assembly, but the challenge was beaten back by a 2 to 1 margin in 1985. This was the same margin as in 1984 despite the fact the vote came shortly after the Israeli bombing of PLO headquarters in Tunis. A number of anti-Israeli resolutions were introduced and passed but generally by smaller margins than in previous years. One resolution, which criticized Israel for planning to build a canal between the

Mediterranean and the Dead Sea, was dropped from the agenda altogether, a rare occurrence in U.N. practice. And language in two resolutions which criticized Israel for its relations with South Africa, which passed in previous years, was eliminated from the text as a result of strong lobbying by the U.S., Israel and other friendly delegations.

Questions Submitted by Senator D'Amato

SOVIET AND EASTERN EUROPEAN ESPIONAGE

Senator D'Amato: How effective have been the Administration's actions against Soviet and Eastern European espionage efforts originating from their United Nations Missions?

Ambassador Walters: During the Reagan Administration, travel controls have been tightened considerably. Since August 8, 1983, the Permanent Missions of the USSR, Byelorussia, Ukraine and Mongolia, along with other hostile Permanent Missions and Observer Offices, are required to use the Office of Foreign Missions' (OFM) travel service facilities for arranging public transportation, hotel accommodations, and car rentals. As of September 15, 1985, when implementation of the Roth Amendment extended travel controls to personnel of certain hostile nationalities, (including Soviets, Byelorussians and Ukrainians), at the United Nations Secretariat, the requirement to request permission for travel and to use OFM travel facilities for travel arrangements was also imposed. On January 6, 1986, this requirement to use the OFM travel services was also extended to personnel of the Permanent Missions of Bulgaria, Czechoslovakia, German Democratic Republic and Poland and to personnel of the United Nations Secretariat of these nationalities. The benefits to United States security interests from this requirement to book travel through the Office of Foreign Missions and request permission for travel is obvious. However, since affected Missions and United Nations Secretariat personnel deal directly with the Office of Foreign Missions when making travel arrangements, detailed questions on this aspect of implementation of the Administration's enhanced travel control program should be directed to Mr. James Nolan, Director of the Office of Foreign Missions, and Mr. John Hogan, Assistant Director, Federal Bureau of Investigation, Agent-in-Charge of the New York Office.

VOTING PRACTICES IN THE U.N.

Senator D'Amato: In last year's report on voting practices in the United Nations, many nations which receive U.S. aid had a very low percentage of voting with the U.S. Mozambique, for which the Administration has requested over $25 million in aid, voted with the U.S. only 3.9 percent, the lowest in the continent of Africa, even below Libya. What efforts are being made to correct this pattern?

Ambassador Walters: The U.S. Mission to the United Nations (USUN) is monitoring voting patterns very carefully. Standing instructions require that U.S. delegations to U.N. meetings request recorded votes in each instance where consensus cannot be reached. The results of these votes are entered into USUN's computer data base and used to prepare The Report to Congress on Voting Practices in the United Nations. USUN uses the Report in its bilateral consultations with member states in order to encourage them to improve their record on the issues of key importance to the United States, such as name calling and Israeli credentials, as well as their general voting patterns. U.S. Embassies also use the Report in their discussions with host governments with the same objective: an improvement in voting patterns. The Department of State, Bureau of International Organization Affairs, is establishing an Office of Multilateral/Bilateral Affairs that will examine the connections between a nation's performance in international organizations and its relations with the United States.

Senator D'Amato: Do you believe that there has been a change in this pattern of low support levels by Third World nations over the past year?

Ambassador Walters: There has been a change in the pattern of support by Third World nations on some issues of key importance to us, particularly on the issue of name calling. This change was most pronounced during the 39th General Assembly when the United States, for the first time, successfully marshalled support to remove references unfairly critical of the United States in several resolutions. During the 40th General Assembly, the sponsors of several resolutions that had criticized the United States by name in the past omitted these offensive references from their texts. In several other cases where such references did appear, we were able to have them removed because of the support that we received from the Third World. While there has been little change in overall support of U.S. positions on economic and administrative/budget issues, the voting records of individual countries evidenced both positive and negative changes in terms of support of U.S. positions.

UNRWA

Senator D'Amato: The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) is scheduled to receive $67 million from the U.S. $23 million of the total UNRWA budget of $225 million goes for schools in Syria. Given Syria's deplorable record on human rights and its support for international terrorism, do you believe we should provide $8 million of the $23 million for Syrian schools? Do you believe the U.S. gets any credit whatsoever for its 30 percent contribution to UNRWA?

Ambassador Walters: UNRWA expenditures in Syria for education finance UNRWA schools for Palestinian refugee children, not Syrian government schools. Most of the money is used to pay the salaries of some 1,500 teachers -- Palestinian not Syrian -- in the 116 UNRWA schools and training centers.

In addition, some money is used for maintenance of school facilities. These UNRWA run schools provide primary and secondary education to over 56,700 Palestinian refugee children. It is the refugee children in Syria and not the Syrian government who are the beneficiaries of UNRWA's educational program. We believe that providing Palestinian refugee children with an education and training so that they become economically self-sufficient adults, helps temper radicalism among the Palestinian population, not only in Syria, but elsewhere in the region. It is well known among the Palestinian population of over 3 million persons in the Middle East, that the United States is the major contributor to UNRWA and is helping educate their children and prepare their youth for employment. Americans are also visible as members of UNRWA's international staff working in the fields of operation as well as prominently placed at UNRWA headquarters. The Arab States also know that the United States is the largest donor to UNRWA. This fact is underscored at international fora, such as the annual meeting of the UNRWA Advisory Commission in Vienna and in the General Assembly when UNRWA related issues are discussed.

Senator D'Amato: UNRWA, created as a temporary response to a specific problem, has now been in existence for over 35 years, requiring increasing U.S. assistance each year. Do you believe UNRWA best serves the interests of the United States and of the Palestinians themselves? How effectively does it deliver those services it is mandated to deliver?

Ambassador Walters: The paramount foreign policy objective in the Middle East of this and past Administrations is to obtain a peaceful, negotiated settlement to the Arab-Israeli conflict that assures Israel's security needs. UNRWA has enjoyed over the years the active support of successive U.S. administrations and bipartisan support from the Congress. While its role is indirect, UNRWA is an important element in efforts to preempt the sort of desperation that can lead to extremism and it thereby helps create a climate that will be fundamental to any peace process. It is, thus, important to our national interests and to the interests of our friends in the region that UNRWA programs continue to function. UNRWA provides much needed education, vocational training, health care and relief services to over two million Palestinian refugees in the Middle East, nearly half of them in the West Bank and Gaza. The Department monitors UNRWA programs closely and is satisfied that UNRWA Headquarters staff is giving top priority attention to administrative streamlining. On-site visits to UNRWA fields of operations are made by senior Department officials several times a year and ongoing consultations with senior UNRWA officials at UNRWA headquarters in Vienna are carried out on a weekly basis. On the basis of these inspections and consultations, our assessment is that UNRWA is cost effective, efficient, and well managed in providing services to the refugees as mandated by the General Assembly.

Senator D'Amato: How much money does UNRWA receive from the PLO? What other type of involvement does the PLO maintain with UNRWA - both formally and informally? How much money do the Arab states provide UNRWA vs. the amount they provide the PLO?

Ambassador Walters: The PLO is not a contributor to UNRWA nor is there a direct or indirect involvement of the PLO in UNRWA programs. On different occasions the PLO has contributed to the Joint Jordanian Fund which has supported specific projects for the benefit of Palestinian refugees, such as the construction of a classroom or clinic. We understand that some refugee students are provided financial assistance for university and graduate training from PLO funds, however, this assistance is not part of any UNRWA program. We do not know how much money Arab States contribute to the PLO as contrasted to the amount they provide to UNRWA. Direct contributions to UNRWA from Arab governments in 1985 totaled $4.5 million. In addition, Arab host governments of Syria, and Jordan reported their costs of assisting Palestinian refugees in 1985 totaled over $155 million (Jordan $100.9 million and Syria $54.7 million).

Senator D'Amato: Why does the U.S. continue to be the largest contributor to an organization whose primary mandate is the perpetuation of the status of Palestinians as refugees in camps? Couldn't those funds be put to better humanitarian use by providing them directly to the host governments, to voluntary agencies or to other U.N. agencies such as UNDP to deliver similar, but more permanent housing and rehabilitation?

Ambassador Walters: UNRWA is mandated by the General Assembly to provide education, vocational training, health care and relief services to Palestinian refugees. UNRWA is not mandated to resolve the political question of Palestine. The Agency, therefore, cannot be held responsible for political events which have perpetuated the refugee status of the Palestinians. The suggestion that the U.S. withdraw its participation from UNRWA and provide funds directly to host governments or voluntary agencies or look to the UN Development Program to assist the Palestinian refugee is not realistic either in political or practical terms. Host governments of Jordan, Syria, Lebanon and Israel vary widely in their ability to care for the refugees and in their policies toward the Palestinians. The UNDP is not charged by the General Assembly or constituted to address the needs of this refugee group, which are not developmental in nature. Until such time as a political solution has been found to the Palestinian question, we believe that UNRWA programs best serve the needs of the refugees and that our support of the Agency serves U.S. humanitarian and political interests in the region.

Questions Submitted by Senator Specter

U.N. DEPARTMENT OF PUBLIC INFORMATION

Senator Specter: A recent General Accounting Office report that I requested indicates that about half of media

pieces put out by the United Nations Department of Public Information (UNDPI), on topics designated by the Department of State to be important to U.S. interests, took positions contrary to U.S. policies and contained biases against the United States. Only one of the items produced during 1983-85 which GAO studied supported our interests. On May 2, 1986, I wrote Secretary Shultz urging him to withhold U.S. funding for UNDPI until the materials it produces and distributes more significantly represent American interests. What more can be done to monitor United Nations publications to ensure that they do not undercut our national interests and that they do justify our substantial investment?

Ambassador Walters: The Department of State fully shares your concern, documented by the recent General Accounting Office (GAO) study, that materials produced and disseminated by the U.N. Department of Public Information (DPI) contain a high incidence of anti-U.S. bias. Based on the GAO findings, we have jointly instituted new procedures for improved review of DPI materials and remedial action. U.S. Mission Officers are responsible for the review of U.N. materials in their area of expertise. If a DPI output contains errors, omissions and/or anti-U.S. bias, one of the Mission's two Officers responsible for following DPI activities will make an appropriate protest with U.N. officials. Copies of original and corrected materials along with correspondence or a report on the action taken will be kept on file in the Mission for statistical purposes and for periodic review. The Mission and the Department will consult on a regular basis on the objectivity and accuracy of newly released U.N. materials and on appropriate follow-up action. Congress, for its part, might wish to consider a formal expression of its concern through a sense of the Congress resolution about the bias in U.N. materials. Congress may also wish to call upon the Department to report to the Congress within one year on whether there has been measurable improvement in U.N. materials as a result of the newly instituted review and remedial procedures.

Senator Specter: I am concerned that the United Nations Relief and Works Agency (UNRWA) has become an agency which provides infrastructure for a permanent "refugee" population inflexibly hostile to the "reality" of the state of Israel. UNRWA helps perpetuate a "homeland in exile," for Palestinians whose radical elements engage in terrorism and guerrilla warfare against Israel. I am also concerned about the use of UNRWA facilities by the PLO. What can be done to prevent PLO subversion of UNRWA and what is being done to study alternatives to UNRWA?

Ambassador Walters: UNRWA, as mandated by the General Assembly, provides much needed education, vocational training, health care and relief services to over two million Palestinians in the Middle East, nearly half of them in the West Bank and Gaza. It is not empowered to intervene in political matters or to resettle the refugees under its care. UNRWA cannot therefore, justly be held accountable for the perpetration of the refugee status of Palestinians. Nor does UNRWA provide infrastructure for a permanent refugee population

hostile to Israel as the question suggests. Refugee camps are not the responsiblity of UNRWA, but of the host governments of Jordan, Lebanon, Syria and Israel. It is these governments which are responsible for administering the camps, the infrastructure necessary to maintain the camps and for matters of security. With regard to terrorism, UNRWA is not and cannot be expected to be a panacea for extremism or terrorism. These are phenomena that range beyond the Palestinians and beyond the refugee camps. Nor can UNRWA ensure that radical elements will not be drawn to terrorism and acts of violence. However, UNRWA's work, particularly its education and training programs, have clearly been a positive influence among the large Palestinian population in the region. The abuse of UNRWA facilities by the PLO has been a problem in Lebanon. However, this is not a problem which UNRWA, as a humanitarian agency of the United Nations, has either the authority or the resources to resolve. UNRWA has no direct or indirect connection with the PLO, and is not, as the question suggests, being subverted by the PLO. Given the environment of civil strife in Lebanon, the Agency cannot realistically be expected to prevail against armed elements to protect its facilities from abuse. UNRWA continues it mission under extremely difficult and dangerous conditions. It is not generally known but, since 1982, over 400 members of UNRWA's staff have been kidnapped or arrested and 21 have lost their lives in Lebanon. With regard to studying alternatives to UNRWA, we believe that until such time as a political solution has been found to the Palestinian question, UNRWA programs best serve the needs of the refugees and our support of the Agency serves U.S. humanitarian and political interests in the region for a peaceful, negotiated settlement of the Arab-Israeli conflict which assures Israel's security needs.

TERRORISM

Senator Specter: Combatting the threat of terrorism should be one of the highest priorities of the international community. I have introduced legislation calling on the President to convene an international meeting designed to establish a definition of international terrorism which could form the basis for a universal crime punishable by any nation on behalf of all, like piracy and torture. The bill further directs that the agenda include consideration of an international tribunal, along the lines of the Nuremburg Military Tribunal after World War Two. Given your extensive involvement in the international community, would you support such an effort?

Ambassador Walters: I thoroughly agree with you that combatting terrorism should be one of the highest priorities of the international community. It is precisely for this reason that I organized the delegation to the 40th UNGA to produce results in this area. The resolution pursuant to which the General Assembly unanimously condemned terrorism in all its forms and the actions by the Security Council concerning hostage-taking, the Achille Lauro and Rome-Vienna airport tragedies were the fruit of these efforts. You may rest assured that the U.S. Government will remain vigilant and

energetic to seize all viable opportunities to achieve further progress in combatting terrorism. Efforts are currently under way in the International Maritime Organization, where we are cooperating particularly closely with Italy and Egypt, and in the International Civil Aviation Organization, where we are working closely with a number of key allies. I do not, however, believe an international meeting focused on a definition of terrorism would be useful. Instead of enhancing international agreement and deepening international opposition to terrorism, such an exercise would lead to disagreement about so-called state terrorism, the role of liberation movements and various other less politically motivated intellectual disagreements over definition. I believe that continuing to urge adherence to and compliance with the existing conventions which establish the criminal nature of the acts covered and mandate prosecution or extradition is a more productive avenue than attempting a new broad international criminal code. We are currently participating actively in several international efforts to this end. I am concerned that attempting something as ambitious as a comprehensive criminal code with an international criminal tribunal, which I agree would necessarily flow from it, would distract us from areas on which progress is far more possible. Additionally, advocacy of something along these lines would weaken our ability to discourage similar efforts in a very different context being pressed by the Soviets and some of the more radical Third World states. Indeed, it is of interest to note that some of those we consider less than committed to combatting terrorism have suggested definitional exercises precisely in order to distract our ongoing practical efforts. These suggestions were discussed in a recent informal meeting of lawyers from Western countries. The British, Canadians, Japanese, Germans, Italians and Nordics all cautioned against being distracted into a definitional exercise, much less an effort at a comprehensive criminal code. The representatives of all these countries took the view that we had gone as far as we could, or needed to go, towards a definition in last year's General Assembly resolution. Our allies, particularly the British, see very serious dangers in reopening these questions at an international conference (or indeed elsewhere); I share the views of our key allies on this issue.

Questions Submitted by Senator Leahy

UNICEF

Senator Leahy: In 1980, when there were 630 million women and children living in poverty in the Third World, our contribution to UNICEF was $34.6 million. Today, there are 750 million women and children living in poverty in those same countries. That is 120 million more than in 1980, but you are requesting only $34.2 million for UNICEF in 1987. That's $400,000 less than UNICEF's budget six years ago, and it's a 40 percent cut from the $53.5 million we gave UNICEF in 1985. Your prepared statement is filled with praise for UNICEF. You say that its programs complement our own bilateral efforts, and

that it was responsible for saving the lives of millions of children last year. You also describe UNICEF as one of the few U.N. agencies that has kept its focus on operational matters and not on irrelevant political debates. Is this major cut in funding due to any failure by UNICEF to use its funds effectively?

Ambassador Walters: The Administration believes that UNICEF continues to use its funds effectively. In 1985 and 1986, the Administration requested $27.0 million for UNICEF. Congress raised the U.S. contribution to $53.5 million in 1985 and $51.4 million in 1986. The fact that the Administration is requesting $34.2 million this year indicates an increase in the Administration's request - not a decrease as your question implies.

Senator Leahy: Has UNICEF suffered from any of the problems of mismanagement that have plagued UNESCO?

Ambassador Walters: UNICEF has not suffered from the mismanagement problems that have plagued UNESCO.

Senator Leahy: How will UNICEF compensate for this loss of funds? Which programs will be cut? How many fewer children will benefit from UNICEF's aid? How many more children will be living in poverty a year from now because of this cut?

Ambassador Walters: UNICEF will be forced to reduce expenditures. This may be done by reducing administrative expenses, by reducing program expenses, or by a combination of both of these measures. UNICEF will most likely cut administrative costs and programs that are least effective first. It is possible that other donors may increase the level of their contributions. To the extent that this occurs, the effects of a decreased U.S. contribution would be offset. The number of children living in poverty is more a function of counterproductive governmental economic policies which have largely constrained economic growth than it is a function of the levels of assistance provided by UNICEF. Until sound policies are adopted to promote the rate of economic growth in a given country or region, poverty will expand its reach and children will suffer from it.

UNEP

Senator Leahy: Your 1987 request for the U.N. Environment Program is $6.8 million. That is a 32 percent cut from 1985. At a time when radioactive fallout from Chernobyl is being eaten by cows in the United States, the inter-connectedness of the global environment is more evident than ever before. Besides the fact that there are not enough U.S. citizens on the UNEP professional staff, is there anything else about UNEP's management to account for this major cut? Has UNEP failed to use our past contributions effectively? As the world's population continues to grow and countries become more industrialized, shouldn't we be spending more rather than less money to protect the earth's environment?

Ambassador Walters: The Administration's 1987 request of

$6.8 million for UNEP represents a substantial increase over Administration requests in the recent past, and reflects our view that UNEP has an important continuing role to play in the international environment effort. We have consistently recognized the degree to which UNEP's activities contribute to the preservation and improvement of the global environment and the world's natural resources. The organization has made progress in focusing its resources on genuine substantive environmental issues, while minimizing extraneous political debate. The Administration has sought to work within severe budgetary constraints to provide the agency adequate financial support so that it can sustain its present level of activities. In view of the fact that, in 1985, the U.S. contributed approximately 35% of UNEP's Voluntary Fund, we would like to see other contributors increase their proportionate share. We also strongly believe there should be an increase in the level of U.S. representation in the UNEP Secretariat (now at a disappointing 6%), and have made this clear to senior officials in UNEP. Moreover, though we recognize the potential for expansion of UNEP's activities -- in view of world population growth and increased industrialization, as well as recent events at Chernobyl -- we are encouraging more efficient use of existing resources and continued efforts toward greater focus of its work so as to avoid "proliferation" of marginal programs and possible overlap with activities already being undertaken in other international fora.

Questions Submitted by Senator DeConcini

NUCLEAR POWER PLANT SAFETY

Senator Deconcini: The White House said yesterday it was considering Soviet leader Mikhail Gorbachev's call for additional international efforts on nuclear power plant safety and prompt reporting of accidents. How can the United Nations assist, coordinate or facilitate these concerns? Could the United Nations have a special session on this matter?

Ambassador Walters: Efforts are currently under way in the International Atomic Energy Agency (IAEA) to address many of the concerns raised by Mr. Gorbachev in his letter to President Reagan regarding the need to enhance global nuclear safety. At its Special Session on May 21 to discuss the Chernobyl nuclear accident, the IAEA Board of Governors requested the Director General to provide detailed suggestions regarding the implementation of an expanded nuclear safety program. In his June 4 presentation regarding the Board of Governor's recommendations, Director General Blix proposed a full range of activities which address, both in the near and long-term, the consequences of the Chernobyl accident and the broader issues relating to nuclear safety. The specific recommendations for 1986 which are contained in the Director General's report include: A post-accident assessment by government experts; formation of expert working groups to draft two international agreements on early notification and

coordinated emergency assistance in the event of a nuclear accident involving transboundry radiation releases; conference of governmental representatives on nuclear safety issues; formation of an expert working group to improve international cooperation in nuclear safety. The Director General has also proposed for 1987 and 1988 an expansion of the Agency's activities in a

number of specified areas including, inter alia, those of radioactive waste management, radiation protection, human health, safe transport of radioactive materials, operational safety of nuclear installations, and emergency planning and preparedness. The IAEA has consistently demonstrated that it possesses the resources and capabilities to successfully address such complex issues, and the Administration is fully prepared to support its efforts. As the organization primarily responsible for nuclear safety issues within the UN system, the IAEA will take the leading role in the Chernobyl follow-up, in coordination with other interested agencies such as the World Health Organization (WHO) and the Nuclear Energy Agency (NEA/OECD). In light of this activity by the IAEA, we believe there is no need for a special session at the UN General Assembly on nuclear safety.

Senator DeConcini: Ambassador Walters, I would like to commend you for the many public speeches and private talks you have been involved in over the past few weeks after the raid on Libya. I have seen clips of your statements on television and read some of your remarks regarding the efforts by the United States to achieve unity with economic sanctions imposed against Libya. Let me read you a portion of the statement on terrorism issued by the leaders of the seven democratic nations attending the Tokyo summit: "Terrorism must be fought effectively through determined, tenacious, discreet and patient action combining national measures with international cooperation. Therefore, we urge all like-minded nations to collaborate with us, particularly in such international forums as the United Nations, the International Civil Aviation organization, drawing on their expertise to improve and extend countermeasures against terrorism and those who sponsor and support it." With this in mind, please explain how the United Nations Relief and Works Agency (UNRWA), which has millions of dollars going directly to support schools in Syria and Jordan, allegedly having PLO connections. This is deeply disturbing. The United States gives $68 million annually to UNRWA when some of its camps are used essentially as military training sites for the PLO. Ambassador Kirkpatrick said a few years ago that the U.S. Government was trying to institute new and tighter efforts at supervising UNRWA administration so as not to strengthen the PLO. Tell me what these are. We obviously should have great detail about these camps.

Ambassador Walters: UNRWA's education programs in Syria and Jordan support UNRWA run schools for Palestinian refugee children in those countries, not Syrian or Jordanian government schools. Most of the money is for salaries of UNRWA teachers, although some money is needed to maintain the schools. It is the Palestinian refugee children who are the beneficiaries of these programs, not the Syrian or Jordanian governments. We

support UNRWA's education programs because educating the refugee children so that they can become economically self-sufficient adults, helps temper radicalism among the large Palestinian population in the region. With regard to the abuse of refugee camps by the PLO, this has been a problem in Lebanon. However, the Lebanese authorities, not UNRWA, are in charge of the refugee camps, and are, therefore responsible for the security situation in the camps. While UNRWA makes every effort possible to prevent misuse of its schools, clinics and other facilities - many of which are located in the camps - UNRWA, as a humanitarian agency of the United Nations, does not have the authority or resources to prevail against armed elements in the climate of civil strife which prevails in Lebanon. Some of the measures that UNRWA has undertaken to strengthen control over its facilities include unannounced on-site visits by international staff and an increase in the number of international staff serving in Lebanon. It is not generally known that since 1982, over 400 members of UNRWA's staff have been kidnapped or arrested and 21 have lost their lives in Lebanon. We believe that UNRWA is to be commended for continuing its mission under such difficult and dangerous conditions.

PERSONNEL COSTS IN THE U.N. SYSTEM

Senator Deconcini: In the current budget crunch of Gramm-Rudman, we in Congress are trying desperately to save monies wherever possible. What progress have you made in reducing U.N. salaries to a reasonable level? I understand that some organizations have spent 50 percent of the funds donated on salaries. I would appreciate it if you could submit for the record the percentage of funds spent on salaries and personnel related costs for the U.N. organizations, especially the Information Agency.

Ambassador Walters: Your question has two distinct parts. In regards to the question of progress in reducing U.N. salaries to a reasonable level, the 40th UNGA adopted a resolution establishing a range of 10 to 20 percent, with a desirable mid-point of 15 percent, above the U.S. civil service salaries. The 15 percent margin above the U.S. civil service salaries, the comparator service, provides an incentive to attract outstanding candidates from all countries. The UN states its salaries are currently 21 percent above those of U.S. civil servants. In addition, at the 39th UNGA Member States successfully resisted an attempt to implement a post adjustment increase at the base city which was considered excessive. Regarding the personnel costs of U.N. organizations, the following table indicates the total portion of each U.N. agency's budget spent on salary and related personnel costs:

Agency	Personnel Costs as a Percentage
Food and Agriculture Organization	73.2
International Atomic Energy Agency	66.9
International Civil Aviation Organization	72.6
International Labor Organization	67.7
International Maritime Organization	60.5
International Telecommunication Union	62.0
United Nations	79.7
Universal Postal Union	80.0
World Health Organization	73.6
World Intellectual Property Organization	69.0
World Meteorological Organization	73.9

These personnel costs include contracts which pay the costs of interpreters, translators, print shop workers and other non-direct hire employees as well as consultants.

DEPARTMENT OF STATE

INTERNATIONAL ORGANIZATION AFFAIRS

STATEMENT OF HON. ALAN L. KEYES, ASSISTANT SECRETARY FOR INTERNATIONAL ORGANIZATION AFFAIRS, DEPARTMENT OF STATE

INDIVIDUAL ACCOUNTS IN UNITED NATIONS

Senator KASTEN. Our next witness is Mr. Alan Keyes, Assistant Secretary for International Organization Affairs, Department of State.

I simply want to congratulate you on the job that you are doing, and continue to do, working for the goals of this administration, and the goals that I know you and the subcommittee share.

I understand that you have a statement. You may choose to summarize that statement, and the entire statement will be made part of the record as if read.

Mr. KEYES. Thank you, Mr. Chairman. I would like to submit the statement as part of the record, and say, if you don't mind, a few general words about the situation that we face now, both with regard to the individual accounts, and in the United Nations overall.

I think that it is clear that at the present time of serious concern about budget matters across-the-board in the U.S Government, it behooves all of us to seriously examine the choices that we have to make with regard to the priority uses of the resources provided for the Government by the taxpayers of the United States.

SITUATION FACING UNITED NATIONS TODAY

This is particularly important when we are looking at a situation such as that which we face in the United Nations. The United Nations today is clearly a troubled organization in many respects. The trends and tendencies of the last couple of decades have produced an environment that is hostile to the United States, to its actions and policies, and to many of the principles to which not only we, but also the United Nations itself was supposed to represent.

Those disturbing trends have produced a reaction in the U.S. Government, in the Congress, and in the general public, that is, in a sense, complex in its nature, but clear in its direction. I say, complex in its nature, because it is a reaction based precisely on a commitment to the fundamental principles, goals, and values the United Nations is supposed to represent. There is also a serious skepticism about the extent to which the organization, as presently constituted in terms of its members and its secretariat is in fact serving those goals and principles.

That perception, as I think very rightly, led to a desire on the part of

the Congress, which we strongly share, to see serious improvement in the organization so that it may once again correspond to the hopes and expectations that we and other peoples and nations of the world entertained for it when it was founded.

This is clearly going to be a difficult task, given the political difficulties of the U.N. system. Those political difficulties lead to a situation in which the basic priorities of the organization no longer seem to be focused upon those values and principles that it was originally intended to pursue, the promotion of peace, international cooperation, and progress.

It has instead often become a battleground among conflicting political tendencies and views. It is often manipulated by various countries and states, and I must say, in particular those that are sympathetic with and follow the views of the Soviet Union; as a propaganda forum and as a battleground in a struggle against the United States, and against our friends and partners.

This, in a sense, betrays the original purpose of the organization and sets it up as an instrument, an extension, if you like, of conflict and enemity, rather than as the basis for cooperation and the pursuit of human progress.

RESTORATION TO U.N. ORIGINAL PRINCIPLES

I think that all Americans would like to see the organization restored to its original principles. We would like to see it renew its commitment to those principles and revitalize its structure. We also understand that that is a difficult process.

Over the past 5½ years, we have laid important foundations for that progress. President Reagan has clearly understood the need to pursue these kinds of changes and improvements in the United Nations. Under the capable leadership of Ambassador Jeane Kirkpatrick, and now Ambassador Walters, we have made improvements in the position of the United States within the U.N. organization.

I say, in the position of the United States, because we have clearly taken steps to make clear the seriousness with which we regard the consequences of U.N. actions, and the behavior of member states in the organization. This is an important step toward making it clear that countries cannot be our friends outside the United Nations, while they expect to be our enemies within it.

I think that it would be a mistake to confuse that improvement, or relative improvement, in the position and representational effectiveness of the United States, with an improvement within the organization itself. I believe that an improvement in our position lays the foundation for us to work, hopefully, with others who are committed to the same goals, for an overall improvement in the organization. But that improvement, I think, has not yet been brought about. In fact, it is clear that a difficult road remains ahead.

I believe that we owe a debt of gratitude to the U.S. Congress in that over the course of the past several years, it has shown a keen appreciation of the difficulties within the United Nations. It has, in the legislation that it has pursued on various questions, including the much discussed Kassebaum amendment, aimed at creating positive leverage. This legislation can be used within the organization to try to pursue effective improvements and changes.

It is clear from that legislation, its history and background, from the conversations that I have had with Members of the Congress that this is a course pursued with a constructive purpose and a clear commitment to the principles that the United Nations is supposed to represent. However, there is an appreciation that we cannot hope to achieve the goal of improving the organization if we are willing to ignore its behavior and the behavior of member states within it. If that behavior, in a detrimental way, is seen to have no consequences of any kind to the organization for its future, or for our relationship with those member states then there will be only minimal progress toward reform.

That message has already begun to draw attention to the fact that business as usual, as it has developed over the past 20 years or so in the United Nations, is not acceptable and significant changes are needed.

Slowly, I think the organization and its member states are waking up to the need for these changes. We have seen very much thanks to the kind of steps the U.S. Government, encouraged by the Congress, has taken, the beginning of a focus on some of these underlying problems.

The establishment of the group of 18 by the General Assembly last fall is, we think, a step in the direction of focusing on this problem. It does not mean an automatic solution to the problem, but it does indicate, finally, that there is a willingness to recognize that they exist.

I think that it is particularly important that we maintain the kind of posture that we have established up until now, which is one of constructive and serious concern for the need for effective improvement in the underlying structure of the organization. A posture which shows a willingness to maintain this kind of positive pressure on the organization is needed in order to assure that serious attention is going to be given to these underlying problems.

The commitment which we have in the State Department, very definitely in my Bureau have, which the Secretary has, and which the President has expressed, is a commitment to the U.N. principles. Also a commitment to improving through the use of effective mechanisms that have evolved over the course of the last several years to improving the nature of the United Nations in fact.

It is on the basis of that dedication that we are trying to formulate and pursue, in cooperation with you and other Members of Congress, effective policies for dealing with the very troublesome problems of the U.N. organization.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Keyes follows:]

PREPARED STATEMENT OF ALAN L. KEYES

ASSISTANT SECRETARY OF STATE
FOR INTERNATIONAL ORGANIZATION AFFAIRS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

IT IS A PLEASURE TO PRESENT THE PRESIDENT'S FISCAL YEAR 1987 BUDGET REQUEST OF $186 MILLION FOR THE "INTERNATIONAL ORGANIZATIONS AND PROGRAMS" ACCOUNT. THIS REQUEST WILL FUND U.S. VOLUNTARY CONTRIBUTIONS TO DEVELOPMENT, HUMANITARIAN AND SCIENTIFIC ASSISTANCE PROGRAMS OF THE UNITED NATIONS AND THE ORGANIZATION OF AMERICAN STATES.

BEFORE ADDRESSING THE SPECIFICS OF OUR REQUEST, I WISH TO COMMENT IN GENERAL ON IT AND SOME OF THE KEY DIFFERENCES BETWEEN THE FY 1987 REQUEST AND PREVIOUS REQUESTS.

FIRST, THE TOTAL REQUEST LEVEL FOR FY 1987 IS MARKEDLY BELOW THE AMOUNT APPROPRIATED FOR FY 1986, AND EVEN LESS THAN THE AMOUNT REQUESTED FOR FY 1986. THIS REFLECTS BOTH THE OVERALL BUDGET CONSTRAINTS WHICH THE ADMINISTRATION AND THE CONGRESS RECOGNIZE MUST BE OBSERVED AND, IN VIEW OF THESE CONSTRAINTS, A REALISTIC ASSESSMENT OF WHAT CAN BE ACHIEVED BY THE PROGRAMS AND ACTIVITIES FUNDED THROUGH THIS ACCOUNT.

AT A TIME WHEN THE ADMINISTRATION AND THE CONGRESS ARE LIVING WITH GRAMM-RUDMAN-HOLLINGS, WE MUST SEEK ONLY THE MINIMUM ESSENTIAL REQUIREMENTS TO SUPPORT MULTILATERAL FOREIGN POLICY OBJECTIVES. THE U.S. CONTRIBUTIONS TO THESE ORGANIZATIONS MUST BE CONSIDERED IN RELATION TO ALL OTHER CLAIMS ON THE FEDERAL BUDGET. WHEN DOMESTIC PROGRAMS ARE

SUBJECT TO SEVERE AND UNAVOIDABLE BUDGETARY STRINGENCIES. WE CANNOT ASK TO EXEMPT MULTILATERAL FOREIGN ASSISTANCE PROGRAMS.

THE MULTILATERAL ORGANIZATIONS COVERED BY THIS ACCOUNT HAVE PROGRAMS OF TECHNICAL ASSISTANCE WHICH ARE ADMINISTERED THROUGH GOVERNMENTS. WHILE THESE PROGRAMS ARE NOT CENTRAL TO THE DEVELOPMENT EFFORT, THEY CAN PLAY AN IMPORTANT CATALYTIC ROLE -- AND THIS IS THE WAY THEY CAN BE MOST EFFECTIVE. WE MUST BE REALISTIC ABOUT WHAT THE PROGRAMS AND ACTIVITIES FUNDED THROUGH THIS ACCOUNT CAN ACHIEVE.

WORKING WITHIN THE SEVERE BUDGETARY CONSTRAINTS WE FACE, AND UNDERSTANDING THE IMPORTANT BUT LIMITED ROLES THESE PROGRAMS PLAY, FORCED US TO MAKE SOME HARD CHOICES. NO LONGER COULD WE CONTINUE BUSINESS AS USUAL; WITH THE REDUCED RESOURCES AVAILABLE, WE HAD TO RETHINK OUR PRIORITIES. WE HAD TO RECOGNIZE AND TAILOR OUR REQUEST TO THE FACT THAT SOME PROGRAMS IN THIS ACCOUNT MORE DIRECTLY SERVE SPECIFIC U.S. INTERESTS THAN OTHERS. WE HAVE DISTRIBUTED THE REDUCTION IN THE ACCOUNT TO MAINTAIN FUNDING LEVELS FOR THOSE PROGRAMS DIRECTLY SERVING SPECIFIC U.S. INTERESTS WHILE STILL MAINTAINING AN APPROPRIATE U.S. LEADERSHIP ROLE IN THE OTHER IMPORTANT PROGRAMS.

GIVEN THE SEVERE AUSTERITY WE FACE, THIS IS NOT A TIME FOR WRINGING OUR HANDS. RATHER, IT PROVIDES US WITH AN OPPORTUNITY TO CONSIDER PROGRAMS IN THE LIGHT OF THESE RESOURCE CONSTRAINTS. THE RESULT IS A REQUEST THAT SEEKS TO DEFINE CLEARLY WHAT CONSTITUTES OUR INTERESTS AND TO DETERMINE HOW WELL THOSE INTERESTS ARE SERVED.

HAVING SET FORTH OUR OVERALL CONCERNS, I WOULD NOW LIKE TO FOCUS ON THE INDIVIDUAL PROGRAMS WITHIN THE ACCOUNT.

THE LARGEST ITEM IN THE ACCOUNT IS A $102.5 MILLION REQUEST FOR THE UNITED NATIONS DEVELOPMENT PROGRAM (UNDP). ALTHOUGH IT REMAINS THE LARGEST, THE AMOUNT REPRESENTS THE LOWEST REQUEST FOR UNDP SINCE FY 1977. WHY IS THE REQUEST SO LOW WHEN A CENTRAL AND LONG-STANDING U.S. POLICY HAS BEEN TO STRENGTHEN THE UNDP AS THE PRIMARY SOURCE OF FUNDING AND OVERALL COORDINATOR FOR TECHNICAL COOPERATION ACTIVITIES CONDUCTED BY UN SYSTEM AGENCIES AND PROGRAMS? THERE ARE TWO REASONS: FIRST, THE REQUESTED LEVEL OF SUPPORT REFLECTS CURRENT FISCAL REALITY AND THE SIZE OF THE UNDP ITEM IN THE ACCOUNT MEANS IT HAS TO BEAR THE BRUNT OF THE CUTS REQUIRED. SECOND, IN THE FACE OF FISCAL REALITY, WE HAVE HAD TO FUND ACTIVITIES WHICH MOST DIRECTLY SERVE U.S. INTERESTS. WHILE UNDP CONTINUES TO BE IMPORTANT, IT TENDS TO SERVE ONLY GENERAL U.S. INTERESTS.

THE SECOND LARGEST ITEM IN OUR REQUEST IS $34.2 MILLION FOR THE UN CHILDREN'S FUND (UNICEF). WE HAVE INCREASED THIS ITEM OVER OUR FY 1986 REQUEST. THIS INCREASE ACKNOWLEDGES THAT UNICEF'S APPROACHES HAVE GENERALLY BEEN CONSISTENT WITH U.S. DEVELOPMENT ASSISTANCE PRIORITIES AND THAT UNICEF COMPLEMENTS AND REINFORCES U.S. BILATERAL ASSISTANCE. THEREFORE, WE BELIEVE UNICEF IS DESERVING OF A LARGER ALLOCATION.

THE THIRD LARGEST ITEM IN OUR REQUEST IS $20.5 MILLION FOR THE INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA). THIS REQUEST LEVEL IS THE SAME AS IN FY 1986 AND 1985. U.S. INTERESTS IN NUCLEAR NONPROLIFERATION ARE DIRECTLY SERVED BY THE IAEA'S WORLDWIDE SAFEGUARDS PROGRAM. U.S. VOLUNTARY CONTRIBUTIONS TO SAFEGUARDS WILL HELP THE IAEA IMPROVE EXISTING SAFEGUARD TECHNIQUES. ASSISTANCE TO THE IAEA TECHNICAL COOPERATION PROGRAM WILL BE IN THE FORM OF EQUIPMENT, U.S. EXPERT SERVICES, FELLOWSHIPS AND TRAINING COURSES. OUR ASSISTANCE TO BOTH THE

SAFEGUARDS AND TECHNICAL COOPERATION PROGRAMS DIRECTLY STRENGTHENS THE COMMITMENT OF DEVELOPING COUNTRIES TO OUR NONPROLIFERATION GOALS. DIRECT SUPPORT IN THE FORM OF TECHNICAL COOPERATION FOR THOSE COUNTRIES THAT ARE NPT SIGNATORIES IS FUNDED THROUGH THIS ACCOUNT.

U.S. POLICY SEEKS TO PRESERVE AND STRENGTHEN THE EFFECTIVENESS OF THE ORGANIZATION OF AMERICAN STATES AS A FORUM FOR DEALING WITH ISSUES IMPORTANT IN THIS HEMISPHERE. OAS MEMBERS LOOK TO THE UNITED STATES FOR SUPPORT IN WHAT THEY CONSIDER TO BE THEIR PRIMARY CONCERN -- TECHNICAL ASSISTANCE FOR DEVELOPMENT. ALTHOUGH OUR REQUEST OF $13.95 MILLION REPRESENTS A 10 PERCENT DECREASE FROM OUR FY 1986 REQUEST, WE BELIEVE IT DEMONSTRATES THE CONTINUED U.S. COMMITMENT TO THE INTER-AMERICAN SYSTEM AND WILL INFLUENCE THE LEVEL OF SUPPORT WHICH THE U.S. CAN EXPECT FROM OTHER OAS MEMBERS ON ISSUES OF CONCERN TO US INCLUDING RESPECT FOR HUMAN RIGHTS AND PRESERVATION OF AN ENVIRONMENT CONDUCIVE TO FAIR TRADE AND PRIVATE INVESTMENT.

OUR REQUEST FOR $6.8 MILLION FOR THE UN ENVIRONMENT PROGRAM MORE THAN DOUBLES OUR FY 1986 REQUEST. THE INCREASE RECOGNIZES THAT UNEP'S ACTIVITIES PARALLEL U.S. INTERESTS, AND THEREFORE, COMPLEMENT AND AID U.S. ENVIRONMENTAL EFFORTS. THIS DOES NOT MEAN THAT WE ARE WHOLLY SATISFIED WITH OUR RELATIONS WITH UNEP. WE CONTINUE TO HAVE MAJOR PROBLEMS PLACING AMERICANS IN KEY POSITIONS IN THE UNEP SECRETARIAT AND WE ARE WORKING HARD TO IMPROVE THAT SITUATION. BUT WE RECOGNIZE THAT UNEP'S MULTILATERAL PROGRAM PROMOTES COOPERATION IN REGIONAL PROBLEMS, SUCH AS MARINE POLLUTION AND DESERTIFICATION, AND ITS GLOBAL MANDATE ENABLES IT TO ADDRESS ISSUES SUCH AS CARBON DIOXIDE BUILDUP AND OZONE DEPLETION. WE BELIEVE THAT A CONTRIBUTION OF

$6.8 MILLION, REPRESENTING ABOUT 24 PERCENT OF THEIR ANTICIPATED INCOME, REAFFIRMS STRONG U.S. SUPPORT FOR UNEP WHILE AT THE SAME TIME CLEARLY INDICATING THAT WE BELIEVE IT IS TIME FOR OTHER NATIONS TO BEGIN CONTRIBUTING A GREATER SHARE TOWARDS UNEP PROGRAMS.

THE REQUEST FOR $2.3 MILLION FOR INTERNATIONAL CONVENTION AND SCIENTIFIC ORGANIZATION CONTRIBUTIONS IS RELATED TO THE U.S. WITHDRAWAL FROM UNESCO. WITH THE U.S. WITHDRAWAL, THE UNITED STATES NO LONGER CONTRIBUTES ITS SHARE OF COSTS FOR SOME SPECIFIC ACTIVITIES SUPPORTED DIRECTLY BY UNESCO WHICH SIGNIFICANTLY BENEFIT U.S. DOMESTIC INTERESTS. THE PROGRAMS PROPOSED FOR FUNDING UNDER THE RUBRIC, INTERNATIONAL CONVENTION AND SCIENTIFIC ORGANIZATION CONTRIBUTIONS (ICSOC), PROTECT THE MORE IMPORTANT, DIRECT BENEFITS TO AMERICAN SCIENTIFIC, EDUCATIONAL, CULTURAL AND BUSINESS COMMUNITIES FORMERLY DERIVED THROUGH U.S. MEMBERSHIP IN UNESCO. ICSOC WILL FINANCE CONTINUED U.S. PARTICIPATION IN CRITICAL UNESCO ACTIVITIES SUCH AS THE UNIVERSAL COPYRIGHT CONVENTION, THE INTERGOVERNMENTAL OCEANOGRAPHIC COMMISSION AND THE MAN AND THE BIOSPHERE PROGRAM.

THE WORLD METEOROLOGICAL ORGANIZATION'S VOLUNTARY COOPERATION PROGRAM ENHANCES THE CAPACITY OF DEVELOPING COUNTRIES TO PARTICIPATE IN THE WORLD WEATHER WATCH. THE PARTICIPATION OF THE DEVELOPING COUNTRIES DIRECTLY BENEFITS THE U.S. BECAUSE IT ENABLES THE U.S. TO OBTAIN OTHERWISE UNAVAILABLE DATA THAT IS NECESSARY FOR OUR NATIONAL WEATHER FORECASTING REQUIREMENTS. TO ASSIST IN FUNDING THIS PROGRAM WE ARE SEEKING $2.0 MILLION FOR FY 1987.

THE UNITED NATIONS CAPITAL DEVELOPMENT FUND PROVIDES SEED CAPITAL, ON A GRANT BASIS, FOR SMALL DEVELOPMENT PROJECTS

REQUIRING ONLY LOW TO MODERATE LEVEL TECHNOLOGY. BECAUSE OF THEIR SIZE, THESE PROJECTS MIGHT NOT ATTRACT FINANCING BY MULTILATERAL DEVELOPMENT BANKS. OUR REQUEST OF $1.8 MILLION WILL ENABLE THE FUND TO CONTINUE TO ASSIST IN PROJECTS FINANCED JOINTLY WITH BILATERAL AGENCIES AND OTHER MULTILATERAL INSTITUTIONS.

THE UN EDUCATIONAL AND TRAINING PROGRAM FOR SOUTHERN AFRICA IS DESIGNED TO PROVIDE STUDENTS FROM SOUTH AFRICA AND NAMIBIA WITH EDUCATION AND TRAINING OPPORTUNITIES DENIED THEM IN THEIR OWN COUNTRIES. THE OBJECTIVE IS TO ENABLE THESE YOUNG PEOPLE TO PLAY A FULL ROLE IN THEIR SOCIETIES AS THEY BECOME INDEPENDENT OR AS MAJORITY RULE IS ACHIEVED AND TO DEMONSTRATE OUR COMMITMENT TO THE PROCESS OF PEACEFUL TRANSITION IN SOUTHERN AFRICA. WE ARE REQUESTING $900 THOUSAND FOR THIS PROGRAM.

ALTHOUGH IT IS NOT A NEW ITEM, THE UN DEVELOPMENT FUND FOR WOMEN, OR UNIFEM, HAS A NEW NAME. FORMERLY NAMED THE UN VOLUNTARY FUND FOR THE DECADE FOR WOMEN, UNIFEM PROVIDES FINANCING FOR THE ACTIVITIES OF THE DECADE AFTER ITS CONCLUSION IN 1985. UNIFEM IS A NOW A SEPARATE, IDENTIFIABLE ENTITY IN AUTONOMOUS ASSOCIATION WITH THE UNDP. OUR CONTRIBUTION OF $450 THOUSAND WILL SUPPLY CRITICAL FINANCIAL SUPPORT TO ENABLE UNIFEM TO INTEGRATE ITSELF INTO THE MAINSTREAM OF DEVELOPMENT ACTIVITIES -- YET MAINTAIN ITS AUTONOMOUS PURPOSE AND IDENTITY. WE ARE WORKING WITH THE FUND TO STRENGTHEN ITS BUDGETARY PRACTICES AND MANAGEMENT TO ASSURE THAT THESE MONIES WILL BE USED EFFECTIVELY.

OUR $300 THOUSAND REQUEST TO HELP FUND THE UN INDUSTRIAL

DEVELOPMENT ORGANIZATION INVESTMENT PROMOTION SERVICE OFFICE IN NEW YORK REPRESENTS A 50 PERCENT INCREASE OVER OUR FY 1986 REQUEST. WE HAVE REQUESTED THIS INCREASE BECAUSE PROMOTION OF PRIVATE SECTOR DEVELOPMENT IS A MAJOR U.S. PRIORITY BOTH IN INTERNATIONAL ORGANIZATION AFFAIRS AND IN DEVELOPMENT ASSISTANCE. WE BELIEVE THIS INCREASE IS ESSENTIAL BECAUSE THE CONGRESS TOTALLY ELIMINATED THIS IMPORTANT ACTIVITY FROM THE FY 1986 APPROPRIATION. UNIDO'S INVESTMENT PROMOTION SERVICE REPRESENTS THE CLEAREST RECOGNITION WITHIN THE UN SYSTEM OF THE IMPORTANCE OF PRIVATE INVESTMENT CAPITAL IN THE DEVELOPMENT PROCESS. THE PROGRAM STIMULATES THE PRIVATE SECTOR IN DEVELOPING COUNTRIES WITH A CATALYTIC IMPACT UPON THEIR DOMESTIC ECONOMIES. THE NEW YORK OFFICE PROVIDES A SIGNIFICANT SERVICE TO THE U.S. PRIVATE SECTOR BY PROVIDING INFORMATION ON INVESTMENT OPPORTUNITIES IN DEVELOPING COUNTRIES, WHICH LEADS TO INCREASED MARKETS FOR U.S. GOODS AND SERVICES. IT ALSO DIRECTLY BENEFITS THE U.S. PRIVATE SECTOR BY ASSISTING REPRESENTATIVES FROM DEVELOPING COUNTRIES TO ESTABLISH CONTACTS IN U.S. INDUSTRY. I NOTE THAT ONLY THE UNITED STATES AMONG THE SEVEN COUNTRIES WHO HOST SIMILAR INVESTMENT PROMOTION OFFICES DOES NOT FULLY FUND THOSE ENTITIES. FURTHERMORE, FOLLOWING UNIDO'S CONVERSION TO SPECIALIZED AGENCY STATUS ON JANUARY 1, 1986, WE ARE ANXIOUS TO ENCOURAGE OPPORTUNITIES FOR THE PRIVATE SECTOR TO PARTICIPATE IN UNIDO ACTIVITIES.

IN 1987 THE CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES) WILL CONTINUE ITS ROLE AS A MAJOR CONTRIBUTOR TO INTERNATIONAL CONSERVATION AND THE PRIMARY INTERNATIONAL MECHANISM GOVERNING INTERNATIONAL TRADE IN WILDLIFE. CITES WILL CONTINUE WORK ON MAJOR PROJECTS SUCH AS THE INVESTIGATION OF LEGAL AND ILLEGAL TRADE IN KEY SPECIES. OUR REQUEST

INCLUDES $200 THOUSAND FOR CITES.

ALTHOUGH THE UN VOLUNTARY FUND FOR VICTIMS OF TORTURE IS NOT NEW TO THIS ACCOUNT, THIS IS THE FIRST TIME THAT THE ADMINISTRATION HAS SOUGHT FUNDING FOR IT. THE BOARD OF TRUSTEES EXPECTS 1986 TO BE THE YEAR WHEN THE FUND COMES FULLY OF AGE AND 1987 TO BE THE YEAR WHEN THE FUND EXPANDS ITS ACTIVITIES FROM ITS PRESENT PURELY MEDICAL CONCENTRATION TO INCLUDE SOME SOCIAL SERVICES TO VICTIMS OF TORTURE AND THEIR FAMILIES. A U.S. CONTRIBUTION OF $100 THOUSAND IS REQUESTED FOR THIS WORTHY PROJECT.

MR. CHAIRMAN THAT CONCLUDES MY STATEMENT. I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU AND OTHER MEMBERS OF THE COMMITTEE MAY HAVE.

VOTING PRACTICES REPORT

Senator KASTEN. Mr. Keyes, thank you very much. We have now received a draft of the U.N. voting practices report, and the White House has signed off on it. How will you and others in your department utilize this information?

Mr. KEYES. Mr. Chairman, one of the things that I noticed when I came into the International Organizations Bureau, and looked over the organizational chart, given the experience I had had in my years at the United Nations, was to see where the institutional mechanism was for assuring that we would have over time a consistent, persistent, and effective linkage between the kinds of events and behavior that occurs in the multilateral arena, and our bilateral relations.

I am afraid that I didn't find it. So I proposed a reorganization of the 10 bureaus, which has now been implemented and created an office, which we are calling the Office of Multilateral Performance. We plan to devote the needed manpower, establish the necessary data base and perform the analysis, for a serious pursuit, maintenance, in an institutional sense, of this important linkage between these two important aspects of our foreign policy.

That doesn't mean to say, of course, that we expect that U.N. behavior is going to be the sole determinant of policy toward countries on a bilateral level or otherwise. It does mean, however, that over time a serious effort has to be made to assure that multilateral behavior on the part of states is going to be factored into the development of our policy approaches toward those individual states and regions.

In my view, that requires a serious ongoing process. First of all, the process that the voting record report represents is one of tracking significant aspects of U.N. behavior and developing the kind of data base that is needed, so that we know where we stand with regard to countries. How often they have been supportive of, or are working in parallel with U.S. interests and policies, as well as how often they have been opposed to those policies.

I think that requires a continuance of our efforts to follow the voting records and the coincidence between countries and ourselves. I also think, however, that it includes an effort to develop information about the other aspects of a state's behavior.

I often found in the United Nations, that even when a state is absent or abstains on a given vote, I would get reports that the representative of that state had been speaking in a nonaligned group meeting or a G–77 meeting, encouraging their colleagues to go after the United States, not to give in to U.S. pressure on name calling and other issues of this sort.

Further, there are states that smile at us one day, and meanwhile in ways that they think may or may not come to our attention, their representatives are busily working to undermine our influence. I think that these experiences have to be taken into account in the General Assembly and also in the other meetings that exist in the U.N. system.

U.N. MEETINGS

There are about 1,100 meetings of the United Nations in various parts of the world at various times. Some are more important to us than others. States again have an opportunity to confirm or disprove the friendship that they may or may not profess for the United States.

I think that this relationship is important. We will be devoting significant resources within this Office of Multilateral Performance to develop a profile on individual countries that will give us an overall sense of how they voted, how they spoke, how they cooperated or did not cooperate with the United States in the corridors and backrooms of the United Nations. This will give us a sense, collected from our various delegations, of what kind of a performance countries are putting in throughout the U.N. system.

We will be able, based on this information, to get an idea of who our friends are, who our enemies are, and who stands with us and who stands against us. By getting a clear idea of our support and its background we will then be able to accomplish another purpose. Which is keeping track of the decisionmaking processes within the U.S. Government, that includes the executive branch, as well as the legislative process of the Congress, so that this kind of comprehensive information can be fed into the process at the appropriate moment in order to be factored into the decisions that are taken with regard to foreign assistance, military assistance, as well as the other range of perquisites that are entailed by our bilateral relationships. These should be elements in coming to a judgment on just where a country stands with regard to the interests of the United States.

This is a matter, Mr. Chairman, which we, in IO, take extremely seriously. I think that it is one of my highest priorities, to try to leave behind a developed, institutional mechanism that will assure an effective approach to this linkage problem for the United States. One that will ensure that the kind of perspective we have developed over the last several years, giving countries a sense that what they do in the United Nations matters to us, that that action is going to be translated into institutional terms in a consistent way. Over time it will become clear, not only that we respond on a case-by-case basis, or on a direct-reaction basis to particular events that are negative, but also to give a message to those countries that are out there who are supporting us, or who would like to support us, that their support also results in more attention, more favorable treatment from the United States.

I think that this kind of a comprehensive effort is the way to achieve that sort of a balance, so that we won't be, in a certain sense, creating problems for ourselves by sending a signal that you can be an enemy of the United States with no consequences, and that if you are a friend of the United States, it has no benefits. That, I think, is a recipe for having lots of enemies and very few friends.

ISRAELI EXPULSION FROM UNITED NATIONS

Senator KASTEN. We look forward to working with you as you further institutionalize this process. The voting practices report was put into law with much of the same kind of rationale that you have just outlined. The subcommittee supports those efforts, and we also look forward to working with you in terms of the legislative and budgetary and appropriations efforts as we try to translate the linkages and the relationships that you will find. We will try to translate those more and more into specific legislative action and specific budgetary appropriations.

If any of the U.N. organizations should expel Israel from membership, and there have been campaigns from time to time in a number of the different international organizations, what would you recommend be the United States response?

Mr. KEYES. Mr. Chairman, thankfully, there is a positive U.S. policy in existence on this question, which I strongly support, which states unequivocally that should Israel be expelled from the U.N. General Assembly, or the U.N. bodies, or denied its membership and effective participation, the United States would thereupon curtail its membership until the principle of universality was respected, and Israel's membership and participation was restored.

That is a policy which has been articulated at the highest levels, which I strongly support. I think that policy, combined with effective representational and lobbying efforts, effective political efforts in various organizations, has resulted in a significant diminution of the momentum of the movement to expel from the United Nations and specialized agencies. I believe that it is only through the maintenance of that kind of a firm approach that we can assure that this movement is going to be thwarted consistently.

UNRWA

Senator KASTEN. Mr. Secretary, the U.N. Relief and Works Agency, UNRWA, is funded under the refugee account. I assume, however, because this is an international organization, that you, as the Assistant Secretary for International Organization Affairs, have some say or at least policy direction for U.S. policy toward that agency. Is that correct?

Mr. KEYES. We maintain a close liaison relationship with the Bureau of Refugee Programs in dealing with the UNRWA account. We do have an opportunity, from time to time, to have input into the policy toward that organization. Our role is, of course, limited by the fact that we do not control its budgetary resources, which often can be the most effective lever of influence over an organization. But we do have a role to play in working out our approach toward that organization with the Bureau of Refugee programs and other responsible parties in the Department.

Senator KASTEN. They are both in the 150 account, I assume. It is an international organization, but because it is an international refugee organization, it has two different policy groups. Could you define this a little bit more for me, I don't understand which way this works.

Mr. KEYES. Mr. Chairman, I am not entirely sure, at the sort of conceptual level that I would understand it myself, but I think that it is not the——

Senator KASTEN. I am happy that I am not the only one who might be confused.

Mr. KEYES. It is not the result of logic. I think that it is the result of history that these programs were separated from the other accounts of the United Nations and the international organizations, and are now separately administered by another bureau in the State Department that is responsible for the budget of the organization. That is just the way it is, and that is the way I found it in coming into the responsibilities I now have.

As I said, we take an interest, particularly with a view toward trying to assure an effective coordination, between our approach toward UNRWA and our approach toward the U.N. system overall, but we do not at this point play a principal role in the formulation of policy toward that organization.

Senator KASTEN. You would describe your role as a coordinating role, a liaison role or as an interested observer who occasionally advises?

Let me do it another way. Don't you think that this organization belongs under the overall umbrella of international organizations, notwithstanding the fact that when you arrived, and you found it to be independent of you?

Doesn't it fit with the overall group of international organizations that are under your direction and control; and wouldn't logically fit that way?

Then, of course, the next step is, do you think that the U.S. interests and policy are given adequate weight in overall decisions made by UNRWA. That is what I am trying to get to, but first I was trying to figure out how we are in a position that we find ourselves in right now.

Mr. KEYES. As I understand it, the rationale for separating UNRWA from the international organizations account has to do with the strong interest in the operation of that agency by the Near Eastern Bureau, because of the fact that that organization deals with a problem that fits into the context of the Middle Eastern problems.

Also, UNRWA fits into the framework of the overall refugee programs, including the U.N. High Commission for Refugees. Therefore, it is understood as a refugee problem, and at some point in history, the refugee problem was moved outside of the immediate purview of the International Organization Bureau.

When we were dealing with UNHCR in the pursuit of the right kind of person to head that organization, there was a lot of U.N. politics involved, and my bureau played an important advisory role. We were able to express our views and secure the kinds of goals we were trying to achieve in an effective way.

There is a complex process of coordination between the operations of various U.N. agencies and the overall policy approach that we are trying to take toward the United Nations as a whole, in terms of increasing the effectiveness of the U.N. system, and of increasing its responsiveness to U.S. views. I do think that my bureau has a role to play in that context of dealing with this agency.

Senator KASTEN. You are suggesting—I don't want to put words in your mouth—that a stronger role from your organization, a stronger role and participation from your department, would improve or would further the interests of the U.S. policy within that organization?

Mr. KEYES. Well, you are really leading the witness, Mr. Chairman.

Senator KASTEN. I said that I didn't want to put words in your mouth.

Mr. KEYES. Since we do make a contribution, we will certainly try to make it the most effective contribution that we can in support of the work that is done by the responsible bureaus and agencies in the State Department.

UNRWA FUNDING

Senator KASTEN. I can't recall, in previous hearings this year, discussing this whole question. We simply have not paid close and careful attention to it until, in a hearing we had about a month ago, other members of the subcommittee, not me, brought up some questions with regard to the funding of UNRWA, the amount of our contribution as opposed to the contribution of other countries. Now there is, at least on the staff level throughout the committee, a great interest in reexamining this whole area with the idea of somehow trying to encourage other countries of the world to participate to a greater degree, possibly this is an area where we could make some significant reductions. We are just trying to go through the process of analyzing that. We are trying to understand where your organization fits in this overall.

The answer is, I was right, it is cloudy, it doesn't make a whole lot of sense, and it is a little bit unclear as to what role you have and what role an awful lot of other people have. I guess that this is the short answer to my question?

Mr. KEYES. I would have to say that there is a clear responsibility for the oversight of the U.N. Relief and Work Agency, which is vested in the Bureau of Refugee Programs. As I said, we have a role in coordination with that bureau in trying to develop and implement a coordinated policy toward the organization.

I think that my bureau would certainly support the idea of seeking increased contributions from other donors, including the wealthy Arab states, in order to broaden the base of the organization. We certainly will try to play an effective and useful role in the area of policy toward UNRWA.

We would look forward to cooperating with the committee, with you and other members, and your staffs, in that respect. It is also a cooperative effort between ourselves, and the responsible bureaus within the Department.

Senator KASTEN. Thank you.

WEIGHTED VOTING

We discussed briefly with General Walters the concept of weighted voting. What is your opinion of weighted voting in general? More specifically, what would be your opinion of weighted voting for budgetary matters or weighted voting of matters of particular import on the budget?

Mr. KEYES. There is definitely a problem, which the Kassebaum amendment is aimed at addressing, a problem of the balance between the countries who have the voting power in the United Nations. The 106 countries that now represent the requirement for a two-thirds majority, contribute something less than 2 percent of the U.N. budget. It is something of that magnitude. So you have a two-thirds majority that really doesn't account for much in the way of actual contributions. The Geneva Group members account for something like 75 percent, and if you add the Soviet Union and the Eastern Bloc, you have about 16 or 18 states that account for 85 to 90 percent of the U.N. budget. So there is a vast disproportion between the voting power and the financial responsibility.

I think that any of us who have been to a lunch or dinner that somebody else is paying for might understand that it is human nature to pay a little less attention to the price at such a time, and maybe go for that lobster stuffed with crabmeat, rather than a cheeseburger, because, after all, somebody is footing the bill.

That natural human tendency translates in the U.N. context into an underlying structural tendency toward budgetary irresponsibility. It has many manifestations—sometimes indifference on the part of the member states to actual budgetary consequences and efficiencies; sometimes a willingness to allow particular representatives of member states to develop little fiefdoms in the Fifth or Budget Committee which their governments really don't attempt to control, so that the real interests of member states are not being reflected in the kind of activities that go on those committees. Sometimes there is a willingness to put political

priorities above the need to pay attention to requirements of budgetary effectiveness and efficiency and restraint, and the priority use of the organization's resources.

ADDIS ABABA CONFERENCE CENTER

All of this adds up to an endemic tendency for a constant expansion of the budget, and a divorce between the decisions that are taken and the actual results that should be achieved by the organization. Therefore, you get anomalous situations, such as the vote on the Addis Ababa Conference Center, where a serious vote was taken where we were in the small minority of countries that voted against it. To vote millions of dollars to build a conference center in a city right in the heart of a country full of starving people. That kind of willingness to put political symbolism above real results is the outgrowth of this disjunction between voting power and financial responsibility, it has to be addressed.

This means that somehow this balance between these two has to be redressed, and that can be done in two ways: One way is to somewhat redistribute the financial burden. When you have states that are giving the minimum, which is about $80,000, it is very hard for those governments to take seriously the impact that this has on their budgets. If they had to pay more, they might pay more attention to the expansion of the U.N. budget, and the uses of those resources.

On the other hand, I also think that there is a need to pay attention to the underlying decisionmaking processes in the organization. After all, if we simply cut our contribution, would it really help if we were paying 10 percent or less of a budget that was 100 or 200 percent larger because the decisionmaking structures were not producing effective restraints on the size of that budget? Obviously, it would not.

Some balance and combination of these kinds approaches is needed in order to assure not only that you are going to get a broader financial distribution and, therefore, a more responsible result, but also that those who are more directly responsible for the financial contribution will have a greater say in the organization.

Does that mean weighted voting in the strict sense of the term, meaning voting directly in proportion to the financial contribution? I have to be frank and say, I think that it is politically unlikely. I don't think that the developing country majority is simply going to turn control of the organization over to the minority.

That phrase "weighted voting" has been misinterpreted and misused in various ways. Since the crux of the matter is the weight that is given to those major financial contributors, and whether or not they have an influence that comes close to being commensurate with the kind of monetary responsibility that they hold. That may not mean that we would have 25 percent of the vote, but it might mean that on critical budget questions, on questions of program priorities, and such, we would be able, in concert with other major contributors, to exercise an effective influence over the agenda of the organization. You would not

get the situations such as have repeatedly occurred over the course of the past couple of decades where all of the major donors are lined up against budgetary actions of the Fifth Committee, which the majority supports. That kind of a persistent willingness to ignore the views of major contributors has to come to an end.

When you look at the United Nations, I think there are various ways of achieving that kind of a change in the relative distribution of voting influence. Mechanisms exist for increasing the weight which donors have in the Fifth Committee, increasing the weight which they have in some of the preliminary committees, like the ACABQ, the CPC, and other committees which examine budget proposals in a preliminary way. They would be able, in those committees, to have a more effective say over what kind of agenda is examined in the budgetary committee.

There is a necessity for a greater linkage between consideration of program priorities and the budget. Right now, you have a situation in the United Nations where you make program decisions in one set of committees, the program committees. In those committees, I have had the experience of being told, that we do not consider the financial consequences. There was great resistance to negotiating financial implications, because that is done in the Fifth Committee, after you have decided what your program priorities are.

First, you decide what you want to do, and then you decide what you want to pay for it, which is a little bit wrong headed, because it means that you are not able, in the course of making decisions about programs, to consider cost effectiveness, or to consider what kind of a return you are getting for your money vis-a-vis other uses of those resources.

So that kind of irrationality also diminishes the extent to which the major contributors to the organization are able to have an effective influence over the uses of the resources of the organization.

I think that in addressing that complex of problems, and increasing the weight which major contributors have in the budgetary process, one could effectively deal with the underlying structural problems, which in concert with some redistribution of assessments, could produce the sort of balance that would be salutary to the health of the organization.

Senator KASTEN. That is a long answer to my question, but I understand how complex these different questions may be. I think that it is important for you to understand that in voting for the Kassebaum amendment, which was reducing the funds, but working toward some kind of a system of weighted voting, the Congress was serious. If we don't see some kind of change, maybe part of what you have just described, the answer is going to be further reductions in funds. In the short term, that would be the only way that we could demonstrate our concern and our disagreement with the policy that is in existence right now.

FOOD AND AGRICULTURE ORGANIZATION

One final question. A number of people, I am told, believe that the Food and Agriculture Organization, the FAO, may be the next U.N. in-

stitution which, because of its behavior, causes a U.S. withdrawal. We hear much about the arrogance of the leadership, misuse of funds, expensive cars provided to certain ministers through development projects, et cetera.

We, on the subcommittee and in the Congress, are hearing more and more about the abuses and the misuses of funds, and also the growing fact that it is becoming more and more apparent that Americans are being discriminated against within this organization for employment.

Is that the case on the employment question specifically, and the misuse of funds question specifically, and is it likely that this would be the next organization which the United States would withdraw from?

Mr. KEYES. First, I tend not to think in terms of what will be the next organization we withdraw from, only because I think that that question has always been addressed. It was, in the case of UNESCO, addressed in the context of the serious and concrete problems which we had with that organization.

Withdrawal is not an end in itself. It comes at the end of a process meant to achieve certain improvements. When those improvements didn't come about, it finally became necessary to take that last step.

We are in the process, throughout the system, and in particular with regard to organizations like FAO, pursuing the kind of improvement in efficiency and effectiveness that are needed.

There are problems in FAO. We are particularly concerned at the present time over what appears to be a desire on the part of the FAO leadership to obstruct quality American representation in the FAO secretariat, and in particular, the World Food Program. We are a major contributor in kind, food, and we believe we have an important stake, as do the hungry people of the world that the program is supposed to aid.

We believe that this is a program in which there should be effective American participation and representation. At the moment, we are having some problems, particularly with the leadership in FAO, in assuring that this will come about. We hope that that problem will not persist.

There are other concerns that arise from the nature of an organization where programs and projects are moving in directions that we find troublesome. Moving in directions of buttressing the tendency toward inappropriate regulatory efforts on the part of organs of the U.N. system. Moving in the direction of less than serious concern with some of the problems of politicization, a problem about which we are concerned in all organizations.

I do not have at this point concrete information on the sort of abuses of funds that you describe. I would certainly like to sit down with you and your staff to explore this. This is seriously disturbing since I do have overall reports that suggest that there is a bit of a problem in leadership and morale within the organization. That arises, perhaps, from the fact that we have had the leadership of some longevity there, and there are some attendant problems that naturally come about because of that.

This is not a problem specific only to FAO. The Geneva Group is a group of the major Western contributors to the organization. The Geneva Group, recently agreed on an approach which expressed some concern about the number of terms served by the people in leadership positions in U.N. organizations. About the necessarily detrimental effects that that would have on the morale, on the tendency toward obfuscation, the tendency toward personal domination of a certain sort within these organizations.

We are concerned about these tendencies in the FAO, as in some other organizations, and we are taking a serious look at the organization. We will be glad to work in cooperation with you and your staff to develop a prudent approach that is consistent with the overall U.S. interest in a healthy and effective Food and Agricultural Organization.

CONCLUDING REMARKS

Senator KASTEN. Thank you. There are some additional questions that we will submit to you from other members of the committee who were not able to be here today for your testimony.

I would like to thank you particularly for your participation here today, and to say, as chairman of the subcommittee, I am pleased with the frankness and the candid responses which we have received, both from you, Mr. Secretary, and also from General Walters.

As we have had hearings of this kind over the last 3 or 4 years, I think that the candidness and the frankness of the responses today is heartening. The subcommittee looks forward to continuing to work with you and General Walters.

This concludes our hearing. As I said, members of the subcommittee will have questions that they will submit in writing. The subcommittee requires that answers to these questions be returned within 2 weeks of receipt.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

FUNDING PRIORITIES IN THE IO&P ACCOUNT

Senator Kasten: Does the breakdown of the Administration's I.O.&P. Account reflect your priorities, or were you given this breakdown as well as the total amount from O.M.B.?

Ambassador Keyes: Working within the severe budgetary constraints we face, and understanding the important but limited role the programs in the IO&P account play, the Administration made an effort to distribute the funds in this account so as to (1) maintain an appropriate level of funding for programs directly serving U.S. interests and (2) decrease or eliminate funding for programs serving only generalized U.S. interests.

PERSONNEL COSTS IN THE U.N. SYSTEM

Senator DeConcini: In the current budget crunch of Gramm-Rudman, we in Congress are trying desperately to save monies wherever possible. What progress have you made in reducing U.N. salaries to a reasonable level? I understand that some organizations have spent 50 percent of the funds donated on salaries. I would appreciate it if you could submit for the record the percentage of funds spent on salaries and personnel related costs for the U.N. Organizations, especially the Information Agency.

Ambassador Keyes: Your question has two distinct parts. In regards to the question of progress in reducing U.N.

salaries to a reasonable level, the 40th UNGA adopted a resolution establishing a range of 10 to 20 percent, with a desirable mid-point of 15 percent, above the U.S. civil service salaries. The 15 percent margin above the U.S. civil service salaries, the comparator service, provides an incentive to attract outstanding candidates from all countries. The UN states its salaries are currently 21 percent above those of U.S. civil servants.

In addition, at the 39th UNGA Member States successfully resisted an attempt to implement a post adjustment increase at the base city which was considered excessive.

Regarding the personnel costs of U.N. organizations, the following table indicates the total portion of each U.N. agency's budget spent on salary and related personnel costs.

Agency	Personnel Costs as a Percentage
Food and Agriculture Organization	73.2
International Atomic Energy Agency	66.9
International Civil Aviation Organization	72.6
International Labor Organization	67.7
International Maritime Organization	60.5
International Telecommunication Union	62.0
United Nations	79.7
Universal Postal Union	80.0
World Health Organization	73.6
World Intellectual Property Organization	69.0
World Meteorological Organization	73.9

These personnel costs include contracts which pay the costs of interpreters, translators, print shop workers and other non-direct hire employees as well as consultants.

TECHNICAL ASSISTANCE

Senator Kasten: In your testimony, you state the following with respect to the United Nations Development Program: "A central and longstanding U.S. policy has been to strengthen the U.N.D.P. as the primary source of funding and overall coordinator for technical operation activities conducted by U.N. system agencies and programs."

This is exactly the concern this Committee has expressed over the years and why we have supported adequate funding for U.N.D.P.

Do you not agree that it is a foregone conclusion that other specialized agencies (largely financed by assessed contributions), will respond to this significant cut in U.N.D.P. by simply expanding each of their technical assistance programs, something we are opposed to and something that we have all been working against over the years?

Ambassador Keyes: Because all UN system agencies are facing severe budgetary constraints, we would not expect the specialized agencies to increase their technical assistance programs in response to a cut in UNDP funding. Even at the reduced level for FY 1987, the United States still maintains its leadership role in the UNDP with its contribution being far larger than other donors. In support of our emphasis on the

central role of UNDP, the United States will continue to: (1) press in each UN agency to keep existing assessed funds to a minimum consistent with overall U.S. policy objectives and (b) seek to avoid the introduction of new programs and activities unless the need is extraordinary and can be fully justified.

U.S. CONTRIBUTION TO UNDP

Senator Kasten: The U.S. share of the contributions for FY 1985 was 26.2%, according to your justification material. What was the U.S. percentage share for FY 1986? What percentage of the total is the requested amount of $102.5 million?

Ambassador Keyes: A total of $750.00 million was voluntarily pledged to the UNDP for 1986. Our pledge of $142.115 million represents 18.9 per cent of the total. If total pledges remain approximately the same for 1987, the $102.5 million we have requested will be about 13.7 percent of the total.

UNDP FOURTH PROGRAMMING CYCLE

Senator Kasten: In your justification material for the United Nations Development Program (UNDP), you state: "Governing Council decisions on the fourth five-year programming cycle beginning in 1987 set realistic resource goals that will influence the planning levels."

Can you tell us what decisions the Governing Council has made on the fourth five-year programming cycle?

Ambassador Keyes: The Governing Council in 1985 approved the following guidelines for the allocation of financial resources:

(a) Of the total resources allocated for IPFs, 19 per cent shall be allocated for intercountry IPFs and 81 per cent for country IPFs;

(b) Within the total amount of IPF resources allocated to intercountry programs, 79.5 per cent will be allocated to regional programs, 8 per cent to the inter-regional program and 12.5 per cent to the global program;

(c) In addition to the above-mentioned resources for intercountry programs, an amount of $20 million will be allocated to the global program from the resources set aside for the Operational Reserve;

(d) Recipients of UNDP assistance with per capita GNPs above $3000 in 1983 shall reimburse the UNDP for their Indicative Planning Figure allocations; and

(e) A standing committee (working group) of the Governing Council will periodically review the operation of UNDP's programs.

We consider point (d) particularly important in that it establishes a mechanism for "graduating" recipients from UNDP assistance.

Senator Kasten: What are the "realistic resource goals" they have decided on?

Ambassador Keyes: The Governing Council based its allocations for the 4th cycle on a target income of $700 million for 1986 and 8 per cent annual growth thereafter. These projections are much more reasonable than those for the preceding programming cycle which (contrary to US advice) were based on an expectation of 14 per cent annual growth.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Senator Kasten: Last year, after prolonged negotiations, the United States agreed to provide $79.8 million over a three-year period for the second replenishment of resources of the International Fund for Agricultural Development. In fiscal year 1986, the United States provided $27.8 million as its initial contribution.

Can you explain why there is no request for additional funding for IFAD before the Committee at this time? Will the United States make a contribution in fiscal year 1987?

Recalling what you said earlier, would you say that this deferral of a request for IFAD funding is the best way to reach the objective of "maintaining an appropriate leadership role?"

Ambassador Keyes: The second International Fund for Agricultural Development (IFAD) replenishment agreement was not completed at the time the 1987 budget request was prepared.

The Administration has submitted a budget amendment to the FY 1987 budget request asking for $24.5 million to be

transferred from bilateral foreign assistance funds into the IO & P account for the second tranche of our IFAD II pledge.

WORLD FOOD PROGRAM

Senator Kasten: You state that the Executive Branch has distributed the reduction in the International Organizations and Programs Account "to maintain funding levels for those programs directly serving specific U.S. interests while still maintaining an appropriate U.S. leadership role in the other important programs."

How does zeroing the U.S. contribution to the World Food Program "maintain an appropriate U.S. leadership role?"

Ambassador Keyes: The U.S. contributes cash and commodities to the World Food Program (WFP) through PL-480 legislation. The cash covers half of the transportation costs for U.S. commodities. Additional U.S. cash contributions have been made in the past from the IO & P account to defray WFP administrative costs. Since FY 1984, because of budgetary constraints, the Administration has not requested a cash contribution to WFP under the IO & P account. The U.S. contribution under PL-480 makes the U.S. the largest contributor to WFP. We feel that, given the U.S. need to reduce budgetary outlays, it is appropriate for us to expect the donors who do not contribute commodities to provide for the Program's cash requirements.

Senator Kasten: The World Food Program is involved in the

feeding of Afghan refugees, is it not? Does feeding these refugees not serve U.S. interests?

Ambassador Keyes: It does indeed serve U.S. interests. The U.S. continues to maintain active support for the the Afghan feeding program in Pakistan. We provide close to a third of the resources for this WFP-administered program. The some 3 million Afghans now living in refugee camps in Afghanistan are the victims of a seven-year war of aggression carried out against them by the Soviet Union. Our assistance to them shows our willingness to stand by the Afghan resistance in the face of such aggression, and provides an integral part of the bulwark of our resistance to Soviet aggression throughout the world. Our support also demonstrates our willingness to stand by the Pakistan government in its efforts to assist the refugees and to stand firm against the Soviet threat on its own borders.

The USG has contributed over $306 million in PL-480 food commodities to the Afghan program through WFP since 1980. So far in FY 1986, we have pledged 160,000 metric tons of wheat worth $49 million. U.S. contributions to the Afghan feeding program are for the most part additional to our regular PL-480 contribution to WFP. The U.S. also contributed an additional $400,000 through the State Department's Bureau of Refugee Programs to the WFP program in Pakistan to augment monitoring staff and to conduct a transportation study.

UNESCO

Senator Kasten: What is the current situation in UNESCO?

Are there any changes which would indicate a corresponding change in the U.S. attitude toward membership in that agency?

Ambassador Keyes: The atmosphere at UNESCO is one of business as usual and prospects for reform appear dim. We remain committed to reform and work to that end through our Observer Delegation in Paris, a Reform Observation Panel for UNESCO made up of distinguished private citizens and the Bureau of International Organization Affairs.

To date we have not seen evidence of reform sufficient to warrant a review of our decision to withdraw. For us to consider rejoining UNESCO, we would have to see evidence of far-reaching reform, consistent with our overall views about the need for a more responsible and responsive UN system.

THE ADMINISTRATION'S REQUEST FOR THE U.N. INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO) INVESTMENT PROMOTION SERVICE

Senator Kasten: Can I assume that the FY 1987 request of $300,000 is a "catch-up" on the lack of funding in FY 1986, plus a doubling of our FY 1987 contribution?

Assistant Secretary Keyes: The FY 1987 request of $300,000 is not an attempt to "catch-up" on the lack of funding in FY 1986 by doubling the FY 1987 contribution. The request for $300,000 is in response to positive signs we are receiving from UNIDO since it became a specialized agency.

Senator Kasten: What do you project to be the total donor contribution to UNIDO in FY 1987?

Assistant Secretary Keyes: I project the total donor contribution to UNIDO's Investment Promotion Service in New York to be $600,000 in FY 1987: $300,000 from the State Department International Organizations and Programs account, assuming our request is approved, and $300,000 from UNIDO itself.

Senator Kasten: How much of that is U.S. contribution, either directly through State, A.I.D., and through our voluntary and assessed contributions to these other donors?

Assistant Secretary Keyes: The only U.S. contribution will be the $300,000 we have requested through the International Organizations and Programs account. AID funding for the Investment Promotion Service's Caribbean Investment Promotion Service, or CIPS, which amounted to some $780,000 in FY 1986, will cease at the end of the current fiscal year. If UNIDO does provide the office with $300,000 for FY 1987, these monies will derive from outside income, and not from the regular budget to which the U.S. contributes. The Investment Promotion Service does not anticipate contributions from any other donors, including UNDP, World Bank, Caribbean Development Bank, or A.I.D.

Senator Kasten: The New York I.P.S. office is one of seven such offices worldwide. What are the budgets for the other six offices?

Assistant Secretary Keyes: The estimated budgets for five of the six other offices, according to UNIDO, are as follows:

	$('000)
Paris	$ 930
Tokyo	$ 565
Cologne	$ 456
Zurich	$ 418
Vienna	$ 183

These figures include regular operating expenses, special programs, and training activities. We do not have current budget figures for Warsaw, the sixth office.

Senator Kasten: What is the total budget for the New York office in FY 1987?

Assistant Secretary Keyes: The New York office budget for FY 1987 would be about $600,000, as noted previously.

SOVIET BLOC ARREARAGES

Senator Kasten: How much do the Soviet Union and Eastern European countries owe the U.N. in assessed but unpaid dues.

Ambassador Keyes: According to the Status of Contributions report as at December 31, 1985, the Soviet Union owed $187.0 million for peacekeeping operations and the Eastern European countries another $39.1 million for total arrearages of $226.1 million.

More recent information is available on the U.N. regular

budget. As of May 31, 1986, the Soviet Union owed $90.1 million and the Eastern European countries another $23.5 million for total outstanding contributions of $113.7 million.

WORLD HERITAGE FUND

Senator Kasten: In the last two fiscal years I have added a small amount for the World Heritage Fund.

Why don't you support that program?

What account do you want me to reduce when I add it this year?

Ambassador Keyes: Although the World Heritage Fund is indeed a worthwhile project, the Administration does not consider funding of this item to be of high enough priority within the budgetary constraints we are facing.

HARD CURRENCY CONTRIBUTIONS
TO UNDP AND UNICEF

Senator Kasten: How much, in hard currency, do these countries (the Soviet Union and Eastern European countries) contribute to U.N.D.P. and UNICEF?

Ambassador Keyes: As a rule, the Eastern European countries make no contributions to UNDP or UNICEF in hard currency. However, the USSR provides one-fourth of its

contribution to UNDP's central resources and a portion of its contribution to a UNDP trust fund in hard currency. Also, Yugoslavia denominates a portion (currently 40 percent) of its UNDP pledge in U.S. dollars.

GAO STUDY ON THE DEPARTMENT OF PUBLIC INFORMATION

Senator Kasten: Do you have any comments about the G.A.O. study on the content of matters produced by the United Nations Department of Public Information?

Ambassador Keyes: I commend the GAO's careful methodology and analysis which has produced convincing evidence of a pattern of reporting contrary to U.S. interests in a thematic selection of DPI print and broadcast materials. This evidence substantiates concerns which the Department has expressed in a series of complaints to the DPI.

It is a serious matter that a selection of materials disseminated by the DPI, an international civil service pledged to present an impartial and objective picture of United Nations activities, is shown to contain a high incidence of anti-U.S. bias. This is particularly unfortunate because the worldwide dissemination of DPI materials is one of the most important sources of information about the United Nations.

This pattern could reduce the credibility of United Nations public information activities and raise questions about the utility of much of the work of the DPI.

The Department of State and the U.S. Mission to the United Nations have taken steps to strengthen their review of DPI materials and to ensure that effective action is taken when biased materials are identified.

UNIFEM

Senator Kasten: My main concern here is that some will point to this small account as "taking care of women" when much larger programs -- UNDP for instance -- do not.

Why not instead insist on UNDP using this criteria and not fund a separate program?

Ambassador Keyes: The Department agrees that the UN Development Fund (UNDP) should incorporate specific women's concerns into the full range of its activities. We make this point strongly to UNDP at every appropriate opportunity. This does not invalidate the value of a separate development fund for women (UNIFEM) in association with the UNDP. UNIFEM supports useful training programs for women and serves as a focal point for voluntary contributions which might not otherwise be forthcoming to the UNDP The Department believes that the relationship between the UNDP and UNIFEM will promote good management of UNIFEM and should eliminate duplication between programs. We think the present structure and association, which only began in 1985, should be given an opportunity to prove their value.

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Senator Inouye: You state that the Executive Branch has distributed the reduction in the International Organizations and Programs Account "to maintain funding levels for those programs directly serving specific U.S. interests while still maintaining an appropriate U.S. leadership role in the other important programs."

How does increased funding for the UN Capital Development Fund directly serve specific U.S. interests?

Ambassador Keyes: UNCDF channels its assistance to the least developed countries. Currently, many of those countries are in Africa. The concentration of its assistance in Africa places UNCDF in a position to complement the crisis work of the United Nations Office for Emergency Operations in Africa. In addition, its activities foster private, as well as public, foreign investment. The United States has a strong interest in encouraging African countries to adopt policies appropriate to development that emphasize private initiative, market incentives and an appropriate role for foreign investment.

UNCDF, INTER-AMERICAN FOUNDATION AND AFRICAN DEVELOPMENT FOUNDATION

Senator Kasten: I am interested in the U.N. Capital Development Fund. You say in your written statement that the Fund "provides seed capital, on a grant basis, for small development projects requiring only low to moderate level

technology." You go on to say that these are projects that "might not attract financing by multilateral development banks." I notice, too, that in the justification material you say that "the Fund stresses projects in the least developed countries, particularly those in drought-stricken Africa."

Bilateral programs we fund such as the Inter-American Foundation and the African Development Foundation do the same thing. As a matter of fact, now that the African Development Foundation is up and running, I would think that we should concentrate our attention there. What does UNCDF do that the Inter-American Foundation and the AFrican Development Foundation don't do?

Ambassador Keyes: In terms of targeted recipients, little difference exists between UNCDF, the Inter-American Foundation and the African Development Foundation. All three operate at the grass roots level of the least developed countries. UNCDF serves as a capital-providing fund through grants and long-term loans made free of interest or at low interest rates. UNCDF assistance supplements that provided by these foundations.

The two foundations attempt to develop new and innovative types of projects. Once the foundations have demonstrated the feasilibility of a new type of project, UNCDF can fund projects of that type not only in Africa or Latin America but in all the regions of the world.

INTERNATIONAL ATOMIC ENERGY AGENCY

Senator Kasten: I understand that International Atomic Energy Agency representatives were allowed to inspect two

nuclear power plants in the Soviet Union prior to the Chernobyl disaster.

Can you give us any indication as to their findings? Were they graphite plants similar to Chernobyl?

Ambassador Keyes: For many years the International Atomic Energy Agency (IAEA) has applied safeguards to nuclear facilities in a number of non-nuclear weapons states to provide assurance that nuclear material is used exclusively for peaceful purposes. The IAEA also applies safeguards in several nuclear weapons states including the U.S., U.K. and France. In July, 1982, the Soviet Union indicated its willingness to accept IAEA safeguards inspection on a number of its civil nuclear facilities and subsequently provided a list of approximately 40 eligible facilities to IAEA. While this list included the reactors at Chernobyl, the IAEA has not conducted any safeguards inspections there. The Soviet Union has a number of reactors similar in design to the Chernobyl reactors, and the IAEA has conducted inspections at some Soviet reactors. However, the results of safeguards inspections are treated as proprietary information between the inspected state and the IAEA.

Senator Kasten: Since the disaster at Chernobyl, do you anticipate that the Soviets will allow further inspection by the IAEA?

Ambassador Keyes: We have seen no indication that the

Soviet Union has any desire to limit or eliminate current IAEA safeguards inspections in the Soviet Union. However, it is important to recognize that safeguards inspections in no way address nuclear safety issues.

SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee now stands in recess, subject to the call of the Chair.

[Whereupon, at 12:01 p.m., Thursday, May 15, the subcommittee was recessed, to reconvene at the call of the Chair.]

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